Achieving Profitable Growth

Korean Re managed to generate profitable growth against the backdrop of above-average loss experience for two years in a row.

KOREAN RE

Contents

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In the face of daunting challenges, we held fast to our belief that hard times are often blessings in disguise, and Korean Re managed to generate profitable growth against all odds. Hardships may offer a new perspective, depending on how we decide to see them. With this in mind, we remained committed to developing new markets and growth engines that can help balance out less profitable business and shore up our long-term growth.

Financial Highlights 2018

(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
For the Year				
Gross Written Premiums	7,558.5	6,801.5	7,208.1	6,360.8
Net Written Premiums	5,318.0	4,785.4	5,021.8	4,431.5
Net Income	102.9	92.6	133.0	117.4
At the Year End				
Total Assets	10,750.9	9,522.5	10,065.3	9,304.2
Insurance Contract Liabilities	5,578.5	4,941.1	5,157.8	4,767.8
Total Shareholders' Equity	2,237.6	1,981.9	2,163.0	1,999.5
Financial Ratio (%)				
RBC Ratio*	211.5		221.1	
Combined Ratio**	100.6		98.4	
ROA	1.0		1.4	
ROE	4.7		6.4	
Payout Ratio	30.7		25.9	
EPS (KRW, USD)	810	0.73	1,068	0.94

* Solvency Margin Ratio
** Excluding foreign currency evaluation effects
Note: All figures are based on the Consolidated Financial Statements of Korean Re and in accordance with K-IFRS. The conversion from KRW to USD is shown here and in the rest of this report for information purposes only.

Financial Strength Ratings

A — A.M. Best, S & P

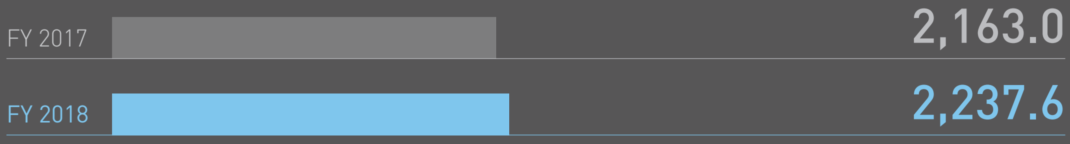
Stable

RBC Ratio

211.5%

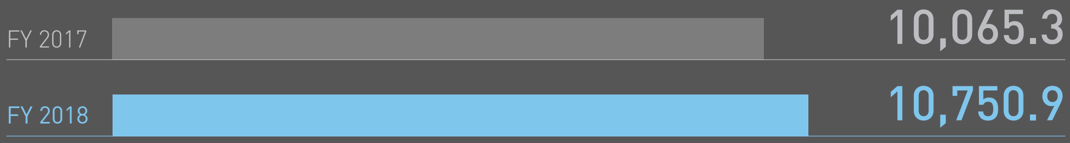
Total Shareholders' Equity

(Unit: KRW billion)



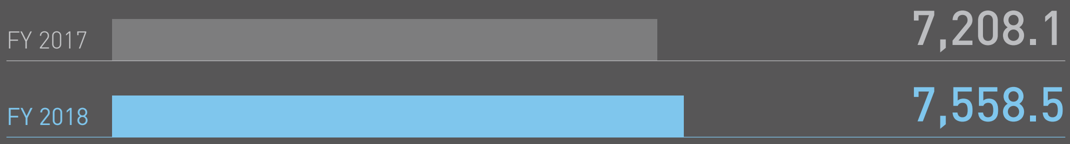
Total Assets

(Unit: KRW billion)



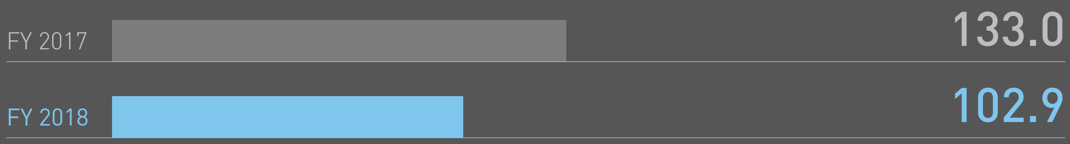
Gross Written Premiums

(Unit: KRW billion)



Net Income

(Unit: KRW billion)



Message from the CEO

In 2018, Korean Re continued to deliver stable premium growth in spite of unfavorable market conditions, with gross written premiums increasing by 4.9 percent to KRW 7,558.5 billion.

We have come through a year that was filled with daunting challenges, such as adverse catastrophe experience and rapidly changing financial market conditions. The prolonged period of sluggish economic growth and low interest rates continued to pose a setback for the (re)insurance industry. Navigating an ever-evolving regulatory environment was another important challenge for the industry as the insurance supervisory landscape has been in a constant state of flux.

In the face of these challenges, we held fast to our belief that hard times are often blessings in disguise, and Korean Re managed to generate profitable growth against all odds. Hardships may offer a new perspective, depending on how we decide to see them. With this in mind, we remained committed to developing new markets and growth engines that can help balance out less profitable business and shore up our long-term growth.

This effort to rebalance our business portfolio has been backed by a broadening network of our global presence. Following the opening of our Labuan branch in July 2017, we got another branch up and running in Dubai, the UAE in January 2018. Our Shanghai branch was pre-approved by the Chinese insurance authorities in September 2018, and is now awaiting final approval for a business license. We also plan to open a new subsidiary in Zurich, Switzerland in 2019, with the aim of growing our business in Europe, where we have been in operation as a member of Lloyd's since the establishment of a subsidiary at Lloyd's in April 2015.

In 2018, Korean Re continued to deliver stable premium growth in spite of unfavorable market conditions, with gross written premiums increasing by 4.9 percent to KRW 7,558.5 billion. Our net written premiums grew by 5.9 percent to KRW 5,318 billion. We saw our profitability impacted by underwriting losses, with net income decreasing by KRW 30.1 billion to KRW 102.9 billion. Total comprehensive income, which represents our capacity, increased by KRW 19.9 billion to KRW 118.9 billion.

Our total assets reached KRW 10,750.9 billion as of the end of 2018, up KRW 685.6 billion compared to a year earlier, while there was an increase of KRW 256.1 billion in invested assets, which totaled KRW 5,879.6 billion.

These results fell short of our expectations as an unusually high frequency of natural catastrophes aggravated the overall loss ratio. Indeed, 2018 was another eventful year following exceptional catastrophe losses worldwide in 2017. However, we managed to generate profitable growth against this backdrop of above-average loss experience for two years in a row. Achieving profitable growth will continue to be an important goal for Korean Re in the years to come.

In 2019, Korean Re will remain focused on improving its business fundamentals and bottom-line results. As our future growth will essentially depend on how we expand our business abroad, we will continue to make our way into overseas markets. Developing a meaningful track record in new markets is not easy and takes a great deal of time and effort. We may not see any significant outcome in the short term, but we are confident that robust footholds are being built in different regions in a way that boosts our growth in the years ahead.

The market situation surrounding our industry keeps evolving, and we are tasked with keeping up with the pace of changes and remaining supportive of our clients. Regulatory reforms and tech-driven market changes are gathering pace in a manner that fundamentally affects the way we and our clients do business. This calls for a high level of preparedness against future changes and nimbleness when it comes to taking action as needed. In addition, thorough risk management is another important aspect of remaining relevant to the rapidly evolving business environment and maintaining the trust we have built with our clients across the market.

When Korean Re celebrated its 55th anniversary in 2018, we envisioned a future where the company thrives to become a 100-year-old enterprise. It is never easy for a company to last for more than a century in today's harsh business environment, but I have a firm belief in entrepreneurship built on a can-do spirit, which enables the company to keep reinventing itself so that it can survive the ebbs and flows of the market. Moreover, Korean Re has a clear vision in place to become a value-creating reinsurance leader, and it is this vision that keeps us moving forward.

On our path toward realizing the vision, we will stay committed to providing reinsurance services of the highest possible standards to deliver value for our clients, shareholders and employees, and ultimately support their growth and prosperity. This mission clearly represents the company's raison d'être, and it is exactly what everyone at Korean Re does every day.

We thank you for your continued support of Korean Re and look forward to working more closely with our clients and other business partners to bring growth and value to all stakeholders.

Thank you.

Jong-Gyu Won
President and CEO

Board of Management

1

1 Jong-Gyu Won President & CEO

Mr. Won is the Chief Executive Officer of Korean Re.
He took office in June 2013.

Since joining Korean Reinsurance Company in 1986, Mr. Won has served the company for more than 30 years in various capacities including as Executive Managing Director from 2011 to 2013 and Chairman of the Korean Re Risk Management Special Committee. He was promoted to Managing Director in September 2007 and supervised the Accounting, Marine, and Claims & Survey Departments for three years. Between 2005 and 2007, he headed the Accounting Department as General Manager, prior to which he served as Representative of New York Liaison Office from 1998 to 2001. Mr. Won holds an M.B.A degree from Yonsei University in Seoul.

2 Joon-Kyo Kim Executive Managing Director

June 2017 Executive Managing Director
June 2013 Managing Director

Team
- Strategic Planning Office
- Finance & Actuarial Team
- Global Project Team

2

3

3 Ki-In Cho Chief Audit Officer

June 2018 Chief Audit Officer, Korean Re
June 2015 Standing Auditor, Korean Re
2013 President & CEO, Korea Insurance Institute
2010 Director of Internal Audit Office, Financial Supervisory Service

Team
- Auditing Team

Korean Re's management provides excellent leadership in the development and implementation of the company's business strategies. Led by CEO Won, the board of management ensures that our business operations deliver the greatest results possible for our clients, shareholders and all other stakeholders.

4 Moo-Seop Lee
Managing Director

5 Chul-Min Jang
Managing Director

6 Yung-Heub Song
Managing Director

7 Yong-Nam Kim
Managing Director

8 Phil-Won Jeong
Managing Director

9 Seok-Yeong Heo
Managing Director

55th Anniversary

Korean Re celebrated its 55th anniversary in 2018, and we envisioned a future where the company thrives to become a 100-year-old enterprise.

We have a clear vision in place to become a value-creating reinsurance leader, and it is this vision that keeps us moving forward.


Since
1963

55th Anniversary

History of Korean Re

1963 - 2004

March	**19, 1963**	Established as a state-owned company, the Korean Non-life Reinsurance Corporation
February	**20, 1975**	Opened Singapore Liaison Office
March	**02, 1978**	Reorganized as a publicly owned company, Korean Reinsurance Company
June	**26, 1984**	Built new headquarters in Susong-dong, Seoul
December	**31, 1996**	Total assets exceeded KRW one trillion
May	**27, 1999**	Announced the mid-to-long-term growth plan entitled ' Vision 2020 '
January	**04, 2001**	Received the 10th Financial Award from M.O.F.E. and the Korea Economic Daily
February	**28, 2002**	Operating assets exceeded KRW one trillion
May	**28, 2002**	Received an A- grade from A.M. Best
June	**27, 2002**	Renamed Korean Re, with the launch of a new Corporate Identity (CI)
October	**12, 2002**	Became the largest reinsurance company in Asia
October	**20, 2002**	Nominated as Reinsurance Company of the Year by the Asia Insurance Review Magazine (Singapore)
January	**03, 2004**	Received the 13th Financial Award from M.O.F.E. and the Korea Economic Daily
November	**23, 2005**	Received the Most Innovative Management in Korea Award (2005)



2005 - 2018

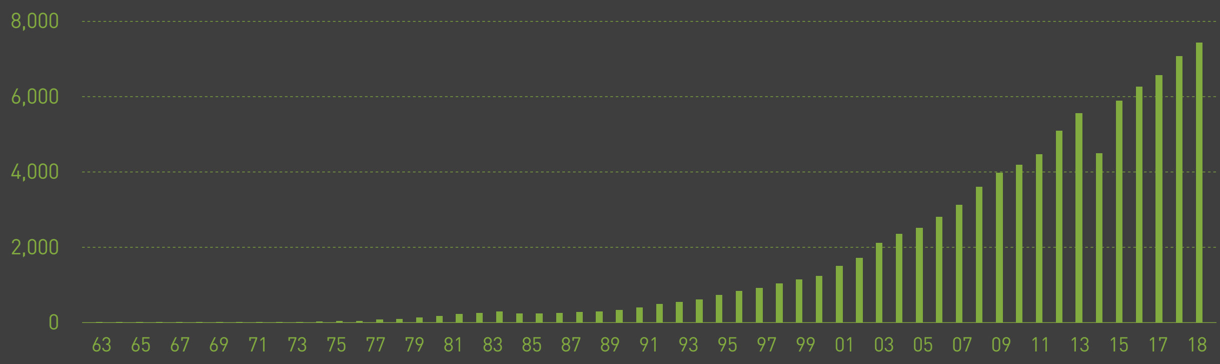
December	**06, 2006**	Acquired an A- rating from S&P
December	**31, 2006**	Total assets surpassed KRW three trillion
April	**08, 2008**	Opened Dubai Liaison Office
April	**28, 2008**	Total assets surpassed KRW four trillion
December	**2009**	Recognized by Reinsurance Magazine as 'Emerging Market Player of the Year'
November	**2010**	Ranked the 11th largest reinsurer in the world and No. 1 in Asia (S&P) Received 'Young Enterpreneur Award of the Year' from Ernst & Young
January	**01, 2011**	Received the Dasan Award
February	**2011**	Acquired an A rating from A.M. Best
September	**2012**	Ranked the 10th largest reinsurer in the world and No. 1 in Asia (A.M.Best)
March	**19, 2013**	Celebrated 50th anniversary
June	**17, 2013**	CEO Jong Gyu Won was inaugurated
September	**2013**	Ranked the 9th largest reinsurer in the world and No. 1 in Asia (A.M.Best)
January	**02, 2014**	Declared 'Vision 2050'
October	**14, 2014**	Issued subordinated capital securities worth USD 200 million S&P rating upgraded from A- to A
April	**01, 2015**	Established Korean Re Underwriting Ltd. at Lloyd's of London
February	**24, 2017**	Signed an MOU on business cooperation with IRB Brasil RE
July	**01, 2017**	Opened Labuan Branch in Malaysia
December	**31, 2017**	Total assets surpassed KRW ten trillion
January	**01, 2018**	Opened DIFC Branch in Dubai, the UAE

55th Anniversary

Korean Re's Growth Records over 55 Years*

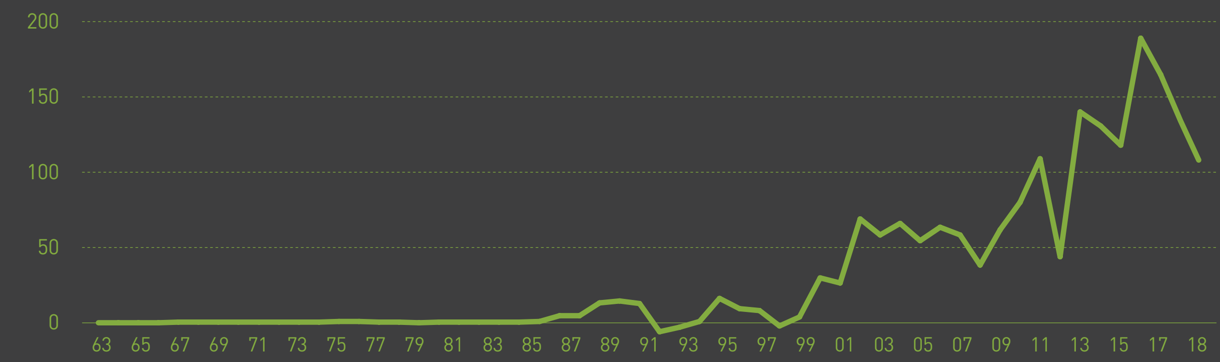
Gross Written Premiums

(Unit: KRW billion)



Net Income

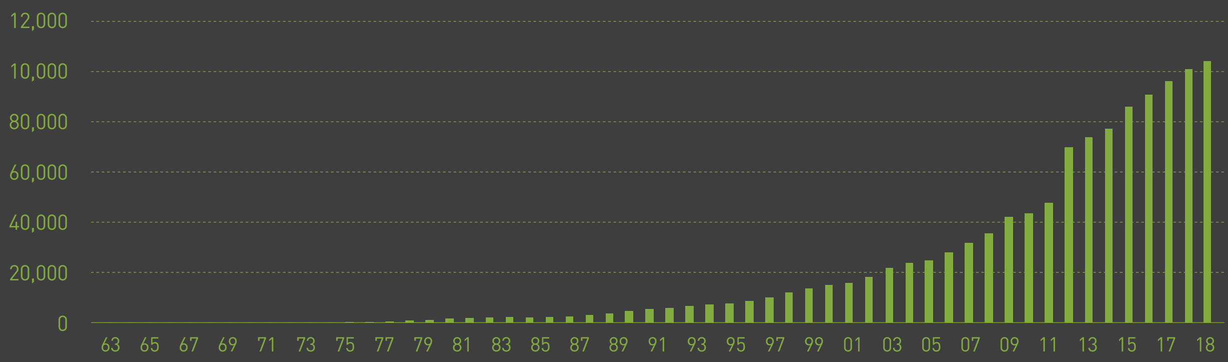
(Unit: KRW billion)



* Figures in the above graphs are based on the Separate Financial Statements of Korean Re. FY 2013 covers nine months from April to December due to a change in fiscal year end from March 31 to December 31.

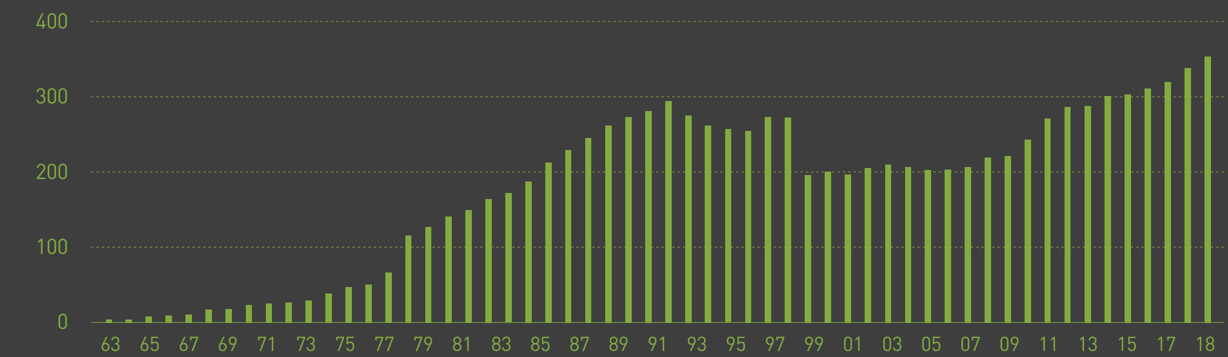
Total Assets

(Unit: KRW billion)



Number of Employees

(Unit: Person)



Global Network

As our future growth will essentially depend on how we expand our business abroad, we will continue to make our way into overseas markets.

Developing a meaningful track record in new markets is not easy and takes a great deal of time and effort, but we are confident that robust footholds are being built in different regions in a way that boosts our growth in the years ahead.

Global Network

Global Network

Singapore & Labuan

Our Singapore branch has provided stable capacity to the Southeast Asian market over the last 40 years. Across the market, Korean Re is recognized as a leading reinsurance company that provides reliable quotations based on consistent underwriting policy. We remain actively responsive to our clients' needs, supporting their risk management objectives. Along with market development, their needs keep changing and evolving, and we are striving to keep up with market needs and expand our business portfolio accordingly.

Korean Re opened Labuan branch in July 2017 to serve the Malaysian market as a Tier 2 reinsurer. Building on our track record in Singapore, the branch is expected to help us further increase our market share in Malaysia. As one of the market leaders in the region, we will stay committed to providing excellent client services across diverse lines of business. For the sake of administrative cost savings, the branch is operated without staff, with necessary documentation and administrative activities being handled by our Singapore branch.

Dubai

Our DIFC branch in Dubai, which opened in January 2018, achieved relatively successful results in its first year of operation not only by receiving a stable transfer of existing contracts from the head office but also by attracting new contracts.

The branch office covers the Middle East, all of Africa, Turkey, Greece and Cyprus, and the reinsurance business environment in this region has deteriorated, like many other parts of the world, following years of market softening. Some reinsurers withdrew their operations from the region during 2018, but at the same time there were also new players entering the region. As a result, reinsurance market capacity has been maintained at a sufficient level, and reinsurance terms and conditions are not expected to improve dramatically.

In response, DIFC branch is planning to further strengthen its presence in the existing market, while actively targeting untapped markets in Africa to seek sustained growth and diversification of its portfolio.

Global Network

Shanghai

Korean Re obtained preliminary approval for its Shanghai branch from the China Banking and Insurance Regulatory Commission on September 26, 2018. This marked a significant progress in setting up our first branch office in China. Korean Re is now required to complete the preparatory work to establish the branch within one year from the date of pre-approval in order to get the green light to do business in China.

China is the second largest insurance market in the world after the United States. The Chinese market has been growing at a face pace, and its growth potential is enormous considering it currently has a relatively low insurance penetration of 4.6 percent. Through the establishment of the branch, we aim to build a strong presence in China, which is one of the most important markets for our global business growth.

Zurich

Korean Reinsurance Switzerland AG is set to open in 2019 after it was incorporated in July 2018. The new entity in Switzerland will start operation with the aim of growing our business in the European market. Europe is one of the largest insurance markets in the world, with a global market share of around 30 percent. Switzerland, in particular, is at the center of the European reinsurance industry, with 54 reinsurers from across the world operating in the country.

It will be Korean Re's second base in Europe following the one established at Lloyd's in the UK in 2015. Korean Re will rely on the Swiss entity to effectively implement its business strategy in Europe and to ensure a Solvency II compliant continuity of its EU expansion.

Inside Korean Re

Korean Re New Year's Concert in 2018

Korean Re held its annual event to celebrate the New Year in downtown Seoul on January 18, 2018. All employees and their families were invited to a dinner party, followed by the New Year's Concert at the Sejong Center for the Performing Arts. CEO Won expressed his appreciation for the hard work and support they had shown over the past year, and also welcomed newcomers who joined the company recently. Constantin Trinks conducted the Seoul Philharmonic Orchestra, with Soprano Vittoria Yeo and Tenor Yosep Kang taking turns to put their brilliant talents into a selection of beautiful opera songs. Those songs included "La donna è mobile"— one of the best-known songs from Verdi's Rigoletto—"Ah! Lêvetoi," from Gounod's Roméo et Juliette, and "O mio babbino caro," from Puccini's Gianni Schicchi.

Celebration of the 55th Anniversary and Total Assets of KRW 10 trillion

Korean Re held a ceremony at the head office on March 19, 2018 in celebration of its 55th anniversary and achievement of KRW 10 trillion in total assets as of the end of 2017. In terms of total assets, 2017 was a record year for us as we saw our total assets surpass the KRW 10 trillion mark for the first time in the company's history. The value of our total assets grew by KRW 484.2 billion year over year to KRW 10,065.3 billion as of late December 2017. At the end of 2018, total assets reached KRW 10,750.9 billion, up KRW 685.6 billion compared to a year earlier. CEO Won complimented the hard work and dedication made by all the executives and employees. He also emphasized the need to respond to changes swiftly in order for the company to become a global reinsurance leader. Another important thing he stressed was effective communication within the organization, as it could promote new ideas and innovation with regard to achieving the goals we pursue. Meanwhile, select employees received commendations for their long-term service and exemplary contribution to the company during the ceremony.

The 37th Korean Re Seminar Held in Seoul

We hosted the 37th Korean Re Reinsurance Management Seminar (Korean Re Seminar) at our head office in Seoul from May 13 to 18, 2018. This year, 24 insurance professionals from 23 insurers in 12 jurisdictions were invited to the seminar, where the latest market trends and issues were discussed. Among the countries represented were Brazil, Chile, China, Taiwan, Thailand and Paraguay. During the seminar, Korean Re employees gave presentations on the company's underwriting techniques and major developments in the Korean insurance market, as well as an analysis of large-loss events over the recent years. Also, field trips to local industrial sites were arranged to help participants gain a better understanding of underwriting practices that Korean Re had shared at the seminar. There were other sessions, such as lectures on the latest insurance market issues and a cultural program that gave participants the opportunity to enjoy and experience some of the Korean culture. The Korean Re Seminar was launched in 1979 as a platform for information exchange and discussion on key issues in the global insurance industry. Since then, this annual event has been attended by more than 600 professionals from over 250 insurance companies. It is now widely recognized among insurance market participants as one of the most prestigious reinsurance seminars in Asia.

Thailand-Korea Agriculture Insurance Seminar

On July 10 of 2018, Korean Re welcomed a delegation of about 30 representatives from the Thai non-life insurance industry, who visited Korea to increase their understanding of the nations' agriculture and livestock insurance markets. We hosted the Thailand-Korea Agriculture Insurance Seminar to share with them our underwriting experiences in the crop and livestock insurance sectors. Underwriters at Korean Re gave presentations about the agriculture insurance market in Korea: an overview of crop and livestock insurance, loss adjustment systems and practices, and the prospect of the local agriculture insurance market. During the seminar, delegates from both countries had a constructive discussion and exchanged views and perspectives on the market. Korean Re CEO Won said in his welcome remarks that the seminar could "serve as a valuable opportunity for us to have a better understanding of the agriculture insurance markets of our respective countries."

Lloyd's Marine U35 Insurance Group Seminar

Members of Lloyd's Marine U35 Insurance Group were invited to Korean Re to have a seminar on the marine insurance market on July 31, 2018. The Marine U35 Insurance Group is a non-profit organization and is comprised of over 1,000 members aged 35 years or younger from all areas of the marine and energy insurance market. The seminar was attended by 25 young underwriters and brokers who are working in the marine insurance market at Lloyd's. Korean Re representatives shared their analysis of the local marine insurance market and major claims. During the seminar, meaningful discussions were made regarding the recent trends in the global marine insurance market and specific topics like cyber risks and Iran sanctions. In addition, participants also exchanged ideas and views as to how to further develop the Korean marine insurance market and enhance cooperation between Korean Re and the Lloyd's market in terms of new product development.

The 2018 Korean Re Underwriting Academy

Korean Re organized ten sessions of the Korean Re Underwriting Academy throughout 2018 - a one-year course of comprehensive risk management training for life insurance underwriters. From March 2018, it was held every month at our head office in Seoul, with the participation of 33 underwriting professionals from 24 insurers. This annual program aims to support the training of our clients' underwriters so that they can enhance their underwriting capabilities from the perspective of comprehensive risk management for life and health insurance. Each session covered more than one medical topic and addressed related underwriting issues. Throughout the year, a wide range of medical topics were discussed, including rheumatism, hypertension, diabetes, hepatitis, fatty liver, kidney failure, gynecologic diseases and conditions, shoulder impairments, and dental problems. The program also dealt with topics like financial underwriting, product development, new technology application in life and health insurance, and underwriting issues related to cancer and long-term coverage. At the graduation ceremony in December, a special lecture was given by an expert on the subject of behavioral economics and its implications for life insurance.

The 18th Asian Reinsurers' Summit Held in Seoul

Korean Re hosted the 18th Asian Reinsurers' Summit (ARS) in Seoul from October 17-19, 2018 with the presence of 29 delegates from 13 companies in 12 jurisdictions in Asia. The ARS is an annual gathering of 15 Asian reinsurers, which aims to exchange reinsurance market information and promote cooperation among reinsurance companies. During this year's summit, participants were given presentations on the latest issues in the insurance industry, such as InsurTech and IFRS17, as well as the opportunity to discuss information on reinsurance market trends and developments in Asia. Korean Re CEO Jong Gyu Won said in his welcome speech, "I hope this summit will help us further strengthen our cooperative relations with one another in a way that reinforces the standing of Asian reinsurers in the global market."

Review of Operations

Property

Domestic Business

In 2018, the Korean property insurance market experienced a small increase in claims compared to the year before in the wake of several mid-sized typhoons, such as Kong-rey and Soulik in the third quarter, but the loss ratio remained relatively stable at 47.4 percent. In terms of premium growth, the market slightly rebounded from the downward trend that continued for several years, with premium income increasing by 2.7 percent to KRW 1,740 billion in 2018. This increase was backed by comprehensive insurance premiums, which grew by 4.7 percent to KRW 1,465 billion. On the other hand, fire insurance premiums declined by 7.2 percent to KRW 275 billion as rates continued to soften.

Adverse market conditions made 2018 a challenging year for Korean Re's domestic property business, but we managed to bring negative impacts on our business to a limited level. We saw our domestic property premiums decrease by 3.9 percent to KRW 511 billion in 2018, as our fire insurance premiums shrank by 23.4 percent to KRW 113 billion amid an increase in retention by local primary insurers. It was encouraging, however, to see a 3.7 percent growth in our premium income from comprehensive insurance, which totaled KRW 398 billion. This was attributed to our ongoing efforts to develop new business. As we focused on selective underwriting, our business results for domestic property business remained stable.

As we enter 2019, we expect the domestic property insurance market to continue to suffer sluggish premium growth, with primary insurers increasing their retention levels. Despite the strain from this unfavorable market situation, we will keep rebalancing our domestic property business portfolio to maximize our profit potential. At the same time, we will maintain our underwriting strategy of exercising discipline based on exhaustive risk analysis so that we can increase profitable accounts, contributing to the company's overall profitability.

Gross Written Premiums: Domestic Property Business

(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
Fire	113.3	102.0	147.9	130.5
Comprehensive	398.1	358.2	384.0	338.9
Total	**511.4**	**460.2**	**531.9**	**469.4**

International Facultative Business

Our international property facultative business saw another year of strong growth, with gross written premiums soaring by 28.1 percent to KRW 104.3 billion in 2018. This resulted primarily from our efforts to increase line size on quality risks and to expand the current portfolio by exploring growth opportunities in untapped markets.

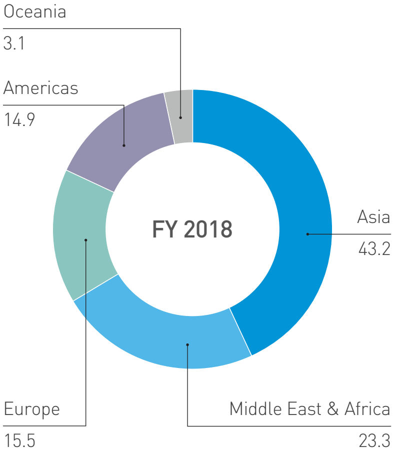
A breakdown of our premium income by geography shows that Asia is still our dominant market, comprising 43.2 percent of the total international property facultative business, followed by the Middle East and Africa (23.3 percent), Europe (15.5 percent), and the Americas (14.9 percent). The overall composition has not changed much from the prior year.

In 2018, we continued to implement our client support program with the aim of becoming a great business partner to our clients. For example, we hosted a Technical Engineering Seminar for our key clients in Malaysia and Thailand to help them find risk management solutions that meet their needs. It also served as an opportunity for us to share our underwriting techniques with regard to power and petrochemical occupancies. We will seek to have more of our key clients be involved in this engagement by expanding our client support service to other regions.

Following a series of large natural catastrophes in 2017, we have revised our underwriting guideline to limit our exposure in primary and low layers for risks located in catastrophe-prone areas. We have also focused on enhancing profitability by increasing our participation in proportional reinsurance business with strong risk management and healthy loss records. Meanwhile, our strategic initiative to expand into untapped markets has contributed much to the

International Facultative Portfolio by Geography for 2018

(Unit: %)



increase in our gross premiums, and we will make sure that this expansion is accompanied with exhaustive assessment as to whether those new markets are worth tapping into.

A protracted soft pricing cycle, heightened competition, and the risk of large catastrophe losses may continue to pose a challenge to our business profitability. However, there are signs of improvement in terms and rates, particularly in the area of power generation and downstream energy. When this positive change gathers pace, a more favorable pricing environment can be made sooner than expected. Moreover, we are hopeful that our strong credit ratings and ample capacity will be instrumental in helping our business partners fulfill their needs. Based on these strengths, we will endeavor to expand our presence both in the existing and new markets.

Gross Written Premiums: International Facultative Business

(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
International Facultative Business	104.3	93.9	81.4	71.8

International Treaty Business

In 2018, natural catastrophe insured losses worldwide were less than what was recorded in the previous year, but still reached as high as USD 90 billion. It was the fourth-costliest year ever behind the records of USD 148 billion in 2011, USD 147 billion in 2017 and USD 135 billion in 2005.[1] Hurricanes Michael and Florence in the U.S., Typhoons Jebi, Trami and Mangkhut in Asia, and Northern California's Camp Fire were the drivers of catastrophe losses in 2018.

Despite the two consecutive years of above-average catastrophe losses, the overall rate increase fell short of the reinsurance market's expectation. January 2019 renewals saw a meaningful price increase only for accounts with high catastrophe exposures, mostly in the U.S. and some parts of Asia. The impact of catastrophe losses on reinsurance market capacity was mitigated by alternative capital, albeit to a lesser extent compared to the previous years.

In 2018, our international treaty business achieved an 18.2 percent growth in gross written premiums, reaching KRW 567.9 billion. While the major driving force for such result was our strong performance in the U.S. and Europe, the growth was also backed by the acknowledgment of treaty statements of accounts for AY 2017 from China, which had been pending following their tax reform.

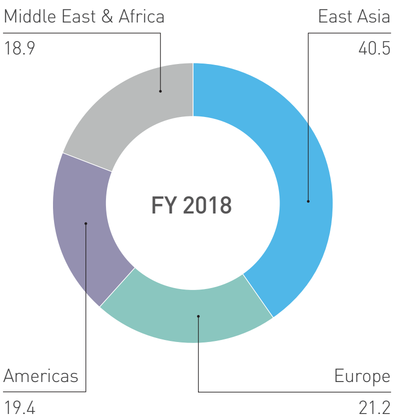
Geographically, East Asia still accounts for the largest premium volume of our international treaty portfolio at 40 percent, followed by Europe at 21 percent, and the U.S. and the Middle East at 19 percent each. Compared to the previous year, the percentage for Europe increased whereas that of the Middle East and Africa declined. This was well in line with our strategy to develop markets with higher returns.

Throughout 2019, we will endeavor to balance and diversify our book while maintaining strong underwriting discipline. Also, we will continue to focus on Europe and the U.S. for sustainable growth.

1) Weather, Climate & Catastrophe Insight 2018 Annual Report, Aon

International Treaty Portfolio by Geography for 2018

(Unit: %)



Gross Written Premiums: International Treaty Business

(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
East Asia	229.9	206.9	190.4	168.0
Middle East & Africa	107.4	96.6	100.8	89.0
Europe	120.6	108.5	97.7	86.2
Americas	110.0	99.0	91.5	80.7
Total	**567.9**	**511.0**	**480.4**	**423.9**

* Individual figures may not add up to the total shown due to rounding.

Engineering

In 2018, the domestic engineering insurance market continued to face a setback from the difficulties of the construction industry. The ongoing decline in construction activity persisted as construction orders in the public sector diminished by 11.8 percent in the wake of a 14 percent decline in the Korean government's budget for infrastructure construction.

The domestic engineering insurance market saw premium income decrease by 2.1% to KRW 261.4 billion in 2018, and premium rates also dropped as the market was still under softening pressure. These unfavorable market conditions led to a decline in our gross written premiums to KRW 126.6 billion. The decrease also had to do with major primary insurers' strategy to increase their retention levels.

We expect some positive developments, with growth opportunities being unfolded for the engineering insurance market in the coming year. For example, the government allocated a greater amount of funds (KRW 19.8 trillion) to infrastructure construction in 2019, representing a 4.2 percent rise from a year earlier. This will clear the way for fresh investments in public works, such as the construction of roads and railroads. The government also plans to spend KRW 24 trillion on 23 projects under its initiative to promote balanced regional development, which has the potential to create new demand across various engineering lines of business. Korean Re will remain active in providing the necessary reinsurance capacity and help our clients seek new business opportunities.

The business of overseas construction showed signs of bottoming out in 2018 after two years of downturn. Korean contractors' overseas construction orders rebounded to USD 32 billion in 2018, up 11 percent from the previous year. This also represented a slight recovery from a record low of USD 28 billion in 2016. While orders from the Middle East decreased by 36.9 percent to USD 9.2 billion, those from Southeast Asia increased by 29.7 percent to USD 16.2 billion. Korean builders' overseas business is expected to show a steady recovery in 2019.

The international construction insurance market suffered a string of heavy losses throughout 2018, with many capacity providers now being forced to react to improve their profitability. Korean Re was not immune from those market defining losses, which impacted our bottom-line result in 2018. Continued soft market conditions in recent years and ever-depressed premium levels have caused a change in our top-line strategy in a way to control and mitigate loss exposure more effectively from a long-term perspective even at the cost of decreased premiums for a while.

Korean Re will continue to move in this direction by putting a greater focus on long-term profitability and tightening terms and conditions based on stricter risk assessment. This may restrain our portfolio growth, but sometimes bottom-line growth may have to come at the expense of top-line growth. In the meantime, we will stay committed to nurturing our long-term relationships with many strategic partners and key clients, including Korean owners and contractors of overseas engineering projects. This effort will inevitably help us boost our business growth in a healthier and more sustainable way.

Gross Written Premiums: Engineering

(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
Domestic	126.6	113.9	147.4	130.1
Overseas	106.7	96.0	121.6	107.3
Total	**233.3**	**209.9**	**269.0**	**237.4**

Agriculture and Other Specialty Lines

Thanks to the continuous expansion of the primary agriculture insurance market, we saw our gross written premiums increase by 6.5 percent for crop business and 29.2 percent for livestock business to KRW 174.6 billion and KRW 74.4 billion, respectively, in 2018. However, our profitability sharply declined as our crop loss ratio jumped to 155 percent due to spring frost, hail, and typhoons. At the same time, exceptional damage from heatwaves sent our livestock loss ratio up to 148 percent.

We recorded a double-digit growth in premium income in 2018 from our overseas agricultural business, which amounted to KRW 111 billion. Based on our experience in domestic crop insurance, we have been implementing overseas agricultural programs since 2014. We wrote business from 14 countries worldwide in 2018, and our effort to expand into overseas markets will continue to gain traction going forward.

In the case of natural peril insurance, there was a decrease in the value of the primary market in 2018 due to slowing sales, which also impeded our business growth. In addition, the market suffered two typhoons, resulting in a loss ratio of 65 percent for the year.

Korean Re is well-positioned to lead the domestic reinsurance market for crop, livestock, and natural perils insurance by exclusively providing local insurers with access to overseas reinsurance capacity. We have been successfully playing this role as a reliable provider of reinsurance capacity, contributing to market development for government-sponsored insurance plans.

Gross Written Premiums: Agriculture and Other Specialty Lines

(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
Domestic Crop	174.6	157.1	163.9	144.6
Livestock	74.4	66.9	57.6	50.8
Natural Perils	19.7	17.7	26.2	23.1
Mobile Phone	0.03	0.03	2.8	2.5
Overseas Agriculture	111.0	99.9	95.2	84.0
Total	**379.7**	**341.7**	**345.8**	**305.2**

* Individual figures may not add up to the total shown due to rounding.

Korea Atomic Energy Insurance Pool (KAEIP)

Korean Re leads the Korea Atomic Energy Insurance Pool (KAEIP), which is a voluntary, unincorporated association of non-life insurance, guarantee insurance and reinsurance companies.

In 2018, the KAEIP continued to grow its business, with its total premium income increasing to KRW 51 billion. Its domestic direct premiums expanded modestly to KRW 32.5 billion on the back of a steady increase in the number of nuclear reactors. However, its reinsurance premium income coming from the overseas market remained mostly flat at KRW 18.5 billion. This arose from a decline in global market volume as nuclear insurance market players have been experiencing market softening amid fierce competition among pools, mutual associations and captives.

In Korea, there are a total of 25 nuclear power plants (NPPs), with 24 NPPs in operation and one being put into permanent shutdown (Kori Unit 1, shutdown in June 2017). An additional five units are currently under construction. Worldwide, a total of 450 reactors are commercially operational, and 55 reactors are under construction. Among the countries where such construction is underway are China (11 units), India (7 units) and Russia (6 units).

The KAEIP will continue to strengthen its domestic business to ensure stable growth while bolstering marketing efforts in target markets where the construction of new nuclear reactors is underway or where legislative changes are in progress with regard to the nuclear liability and compensation regime. We believe this strategy will allow us to further grow our nuclear book of business and boost our overall profitability.

Gross Written Premiums: KAEIP

(Units: KRW billion, USD million)

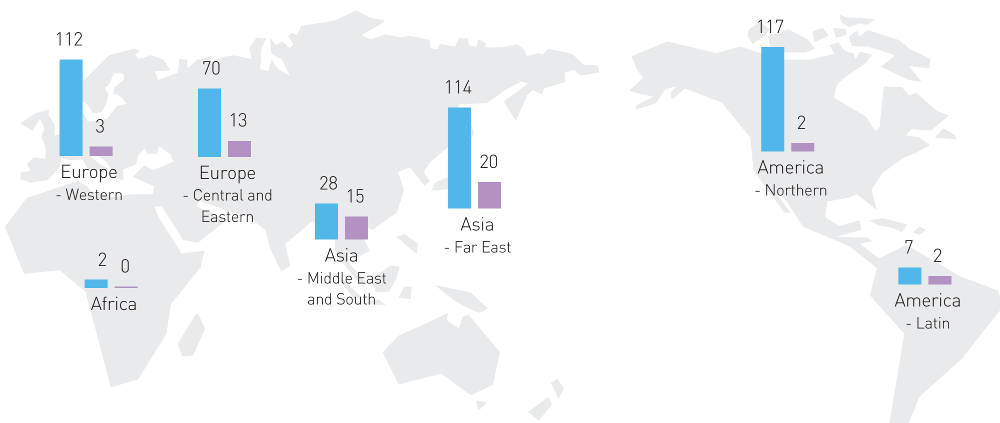
	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
Domestic Direct	32.5	29.2	31.9	28.2
Overseas Reinsurance Inward	18.5	16.6	18.7	16.5
Total	**51.0**	**45.9**	**50.6**	**44.7**

* Individual figures may not add up to the total shown due to rounding.

Global Reactor Status by Region

Total 450
In Operation

Total 55
Under Construction



(Source: Power Reactor Information System (PRIS), International Atomic Energy Agency (IAEA), as of April 3, 2019)

Marine and Aviation

2018 was another challenging year for the marine insurance market, which was reeling from the restructuring of the shipping industry, where oversupply has been a major concern for several years. With this backdrop, our marine and aviation business recorded gross written premiums of KRW 517.9 billion for 2018, which was down 9.7 percent from the previous year.

Our hull and energy premiums shrank by 1.7 percent to KRW 363.2 billion due to the continued contraction of the direct insurance market in the aftermath of the restructuring of the shipping industry. Our cargo insurance business decreased by 4.5 percent to KRW 82.4 billion, resulting from our effort to adjust the cargo business portfolio by cutting unprofitable overseas accounts. We saw our aviation book of business reduce by 38.7 percent to KRW 72.3 billion due to a decreased number of domestic satellite launches and the impact of our overseas portfolio restructuring.

In 2019, the marine insurance market is expected to recover following the start of construction of vessels ordered by LNG carrier ship owners and domestic shipping companies since 2017. It is difficult, however, to expect the growth of the market as negative impacts are still coming from the distress in the domestic shipbuilding and shipping industries and a decline in maritime trade volume amid the U.S.-China trade dispute.

In spite of the difficult market conditions, Korean Re is striving to build a profit-oriented portfolio focused on principle-based underwriting, while seeking to find new growth engines such as offshore windfarm insurance. Furthermore, we are committed to achieving stable growth by continuing to explore business opportunities in such lines as builder's risks of naval vessels, marine liability, and fine arts.

Gross Written Premiums: Marine and Aviation

(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
Hull	363.2	326.8	369.3	325.9
Cargo	82.4	74.1	86.4	76.2
Aviation	72.3	65.1	118.0	104.1
Total	**517.9**	**466.0**	**573.6**	**506.2**

* Individual figures may not add up to the total shown due to rounding.

Casualty

The domestic casualty insurance market has enjoyed steady growth over many years on the back of personal accident and liability lines of business. More recently, demand for credit insurance has been on the rise, supporting the growth of the casualty market. In 2018, the market value rose by approximately 10 percent compared to the previous year. The implementation of compulsory insurance plans has created new demand in the liability insurance market. Disaster Liability Insurance was launched in January 2017, and Cyber Insurance is scheduled to be introduced in June 2019. However, premium rates have been going down amid intensifying price competition in commercial lines of liability business.

Although this unfavorable rating environment worked against the reinsurance industry, Korean Re reported a 1.5 percent increase in gross written premiums from casualty lines for 2018. This growth came even after we cut down 10 percent and 9 percent, respectively, of our personal accident and liability business as part of our casualty portfolio readjustment. Main drivers behind the growth were the booming domestic credit insurance market and our rapidly expanding overseas business. We have also increased cooperation with our clients on product development so that we could not only drive our growth but also support our clients effectively and swiftly in response to evolving market needs and regulatory changes.

We have continued to focus on writing more profitable overseas business in a way that expands our presence in the global market. The share of our overseas business remained relatively small, but the pace of growth has been quite exceptional. Special risks made up the largest part of the total casualty premiums at 27 percent, followed by personal accidents at 24 percent and liability lines of business at 22 percent.

The casualty reinsurance market in Korea does not look promising in 2019 because primary insurers are likely to maintain their aggressive retention strategies. This may pose a setback to our business, but we will continue to make sure that we remain relevant to, and supportive of, our clients by monitoring and responding to their needs. Globally, we will seek to identify target risks and markets in order to broaden our business portfolio that is currently weighted toward Asia by further increasing our business in the U.S. and Europe. In doing so, we will ensure that a conservative underwriting approach is maintained so as to achieve profitable growth.

Gross Written Premiums: Casualty

(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
Liability	259.9	233.9	284.6	251.2
Workers' Compensation	21.8	19.6	25.9	22.9
Personal Accident	233.6	210.2	259.1	228.6
Surety & Credit	146.1	131.5	101.3	89.4
Special Risks & Other	286.0	257.4	290.4	256.3
Overseas Inward Business	125.6	113.0	96.5	85.2
Total	**1,073.1**	**965.6**	**1,057.8**	**933.5**

* Individual figures may not add up to the total shown due to rounding.

Long-term

The long-term insurance market in Korea maintained growth momentum throughout 2018 in the face of declining savings insurance sales due to reduced tax benefits. The main drivers of growth were long-term personal accident (PA) and disease insurance products, leading the market to grow by 3 percent in terms of direct premiums in 2018.

Long-term insurance was an engine of premium growth for Korean Re in 2018, with gross written premiums rising by 9.1 percent to KRW 2,031 billion for the year. The combined ratio increased by 0.6 percentage point to 99.4 percent amid deteriorating loss ratios of medical expense insurance products, but we continued to expand the portion of profitable business in our long-term business portfolio. This effort to build a more profitable book of business focused on the co-development of new products with direct insurers.

In 2019, the overall growth rate of the market is expected to be comparable with what was recorded in 2018, as insurers' sales strategy will remain geared toward boosting new business, with a particular focus on PA and disease policies. There will likely be growing competition among direct insurers to develop new products targeting people with chronic or pre-existing conditions and increase new business in this product segment.

In response, we will continue to work closely with our clients so that we can support market growth in a way that meets their needs effectively. Analyzing the trend of product development within and outside the country is a critical aspect of our work to explore ideas for new products.

Another focus will be placed on providing our clients with medical underwriting services and supporting the expansion of the long-term property insurance market based on our technical assistance and reinsurance programs. Through these efforts, we will endeavor to achieve stable premium income growth and ultimately contribute to improving our business portfolio.

Gross Written Premiums: Long-term

(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
Long-term	2,030.7	1,827.3	1,861.0	1,642.3

Motor

In 2018, the motor insurance market contracted, with premium income decreasing by 1.5 percent from the previous year. One of the main factors behind this reduction was premium rate cuts amid benign weather experience and the growing popularity of online distribution channels. Although there were no catastrophic losses, the market saw its loss ratio rise by 5.1 percentage points year on year to 85.9 percent due to seasonal losses arising from heatwaves and typhoons. The aggravation in loss ratio was also caused by an increase in expenses involving sales costs, as insurers were driven into fierce competition to boost market shares.

Despite these challenging market conditions, we delivered stable results for 2018, with the loss ratio of our motor business falling slightly to 76.7 percent. We reported KRW 698.5 billion in gross written premiums in 2018, up 2.3 percent from the year before. In the domestic market, we maintained existing programs covering higher risks along with both proportional and non-proportional treaties. We focused on offering reinsurance solutions that meet the varying needs of our clients. Our business with cooperatives and mutual associations continued to increase, supporting the growth of our domestic business. In the overseas markets, we succeeded in increasing the level of diversification of our business portfolio by expanding into new markets in the Mediterranean and Eastern Europe.

In 2019, the motor insurance market in Korea is expected to grow by 0.5 percent to KRW 17 trillion in premium income. Both positive and negative factors will come into play in terms of pricing. The increasing popularity of usage-based pricing plans and the trend of driving less may lower the rates, dragging on the growth of the market, while a rise in repair costs and growing claims driven by abnormal weather conditions will help boost premium rates. Another positive factor would be an increasing number of car registrations following a decline in excise tax.

With the primary motor insurance market remaining sluggish, Korean Re aims to achieve the same level of growth in 2019 as in the previous year, with an estimated premium income of KRW 698.5 billion. We will build reinsurance programs designed to cover newly emerging risks, while seeking to further diversify our overseas portfolio so that it can generate stable returns.

Gross Written Premiums: Motor

(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
Motor	698.5	628.5	682.7	602.5

Life

Building on a strong 2017, Korean Re's life business continued to deliver robust growth in 2018, with gross written premiums surging by 10.4 percent year over year to KRW 1,330 billion. Health insurance lines of business drove our domestic business growth. Our effort to partner with our clients to develop new products like simplified issue policies also helped boost our premium growth.

It was also an outstanding year for our overseas life business in 2018, as premium income soared by 21.4 percent, demonstrating the strength of our overseas business strategy. We continued to provide our reinsurance capacity to existing markets such as the U.S., China and Japan, with a steady increase in premiums and solid underwriting profit. We also expanded our overseas life portfolio by assuming new business in Chile and Colombia, helping to boost our global business growth.

In terms of profitability, we delivered good results in 2018 that were comparable to the previous year, with net underwriting profit reaching KRW 47.6 billion. This underscores how effectively we exercised underwriting discipline. Our active portfolio management strategy also contributed to ensuring stable profitability.

The life reinsurance market in Korea has continued to grow, with total premiums amounting to KRW 1,966 billion in 2018 compared to KRW 1,803.3 billion a year earlier. Korean Re maintained a solid market share of 42.4 percent in 2018, representing a sharp increase from 23.9 percent in 2010. Over the same period, our domestic life premium income increased by KRW 54 billion to KRW 923.1 billion.

Korean Re has been well-positioned to provide necessary support to the domestic life insurance market. In response to changing market needs, we have strengthened cooperation with our clients in developing new products such as simplified issue insurance, health insurance for the elderly (silver insurance) and lapse-supported whole life insurance.

Developing such new products has become increasingly important for domestic life insurers to deal with a market downturn. In 2018, life insurance premium income in Korea declined by 2.8 percent due to persistently falling sales of savings policies coupled with a slowdown in the growth of protection products. This downward trend is expected to continue into 2019 as the highly saturated market will see sluggish sales in protection policies amid economic slowdown.

Meanwhile, the local life insurance industry is facing an evolving regulatory landscape. Life insurers will come under pressure in terms of capitalization when IFRS 17 and a new solvency regime called K-ICS are implemented because they will be required to measure their insurance liabilities at current interest rate values. The local supervisory authority is also changing its regulatory strategy from ex-ante control to ex-post supervision. A notable step in this direction was the abolition or liberalization of regulations on rate-making and product development.

As we look to the future, Korean Re will stay committed to supporting our clients in dealing with weakening market conditions and regulatory changes. In addition to our support of product development, we will dedicate ourselves to providing a wide range of reinsurance services that can help our clients manage risk and capital effectively, such as medical underwriting services, informative seminars, and educational programs on a variety of topics including regulatory developments. We are also working to build extensive knowledge and skills on non-traditional reinsurance solutions like financial reinsurance so that we can better serve our clients in line with their changing capital needs.

These initiatives will help fuel our expansion into new product lines and new markets, reinforcing our status as a leader in the domestic life reinsurance market. Globally, we will strive to find new growth engines that will allow us to build a stable and profit-oriented overseas business portfolio, supporting our continued growth and success in the years ahead.

Gross Written Premiums: Life

(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
Life	1,329.6	1,196.4	1,204.6	1,063.0

Investment

The Korean economy suffered some setbacks in 2018, with GDP growth rate declining to a six-year low of 2.7 percent. This arose primarily from a fall in construction and equipment investment. Amid economic slowdown, the growth of consumer prices eased to 1.5 percent. It was encouraging, however, to see exports and private spending improve, helping to shore up the economy.

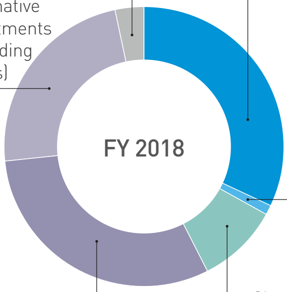
The Bank of Korea raised its key interest rate one time to 1.75 percent from 1.5 percent over the course of the year. However, the yield on three-year Korea treasury bonds dropped by 32 basis points to 1.817 percent at the end of 2018, reflecting weak economic conditions. The Korea Composite Stock Price Index (KOSPI) closed the year at 2,041.04, down 17.3 percent from a year earlier due to moderating corporate profit growth and foreign investors' net selling position.

In 2018, we maintained our key investment principle of ensuring the stability of the portfolio, with efforts being made to improve the profitability of our invested assets. We saw our invested assets swell by 4.5 percent to KRW 5,878.5 billion on the back of stable inflows of investment income and premium income. Our investment portfolio remained dominated by domestic fixed income securities, including government bonds and others with high credit quality, representing 32 percent of total invested assets.

We continued with our diversification strategy to help increase our overall investment performance. As a result, the proportion of foreign investments and alternative investments (including loans) increased to 31.1 percent and 23.2 percent, respectively, of total invested assets. Foreign investments consisted mostly of Korean Papers and bonds with global credit ratings of A- or higher. The majority of our alternative investments were composed of senior secured real estate loans and acquisition finance.

Investment Portfolio for 2018

(Unit: %)



Investment Results 2)

(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
Invested Assets	5,878.5	5,206.8	5,626.3	5,200.9
Investment Income	199.7	179.7	26.2	23.1
Investment Income*	173.4	156.0	132.9	117.3
Yield (%)	3.5	3.5	0.5	0.5
Yield* (%)	3.1	3.1	2.5	2.5

* Gains and/or losses from foreign exchange hedging for insurance liabilities have been excluded.

2) Investment results in this investment section are based on the Separate Financial Statements of Korean Re, reflecting investment operation at the head office only.

Our invested assets generated KRW 173.4 billion in investment income for the year, excluding foreign exchange gains/losses, with an investment return of 3.1 percent compared to 2.5 percent in the prior year. Out of the total, 33 percent of the investment income came from our domestic bond holdings, which amounted to KRW 57.3 billion. Income from foreign and alternative investment accounted for 32.8 percent (or KRW 56.8 billion) and 29.6 percent (or KRW 51.3 billion), respectively.

Going into 2019, we believe that a dominant theme that will shape financial markets for the year will be growing external uncertainties involving how Brexit and a trade row between the U.S. and China will unfold. Weakening growth momentum in major economies that may weigh down the global economy is also a major downside risk to the overall investment environment. Nonetheless, we will continue to maintain our investment policy that focuses on ensuring the stability of our investment results. Also, a significant focus will remain on how to expand our alternative investments steadily and in a way that both generates stable returns and meets our diversification needs.

Invested Assets

(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
Bonds	1,882.4	1,667.3	2,037.5	1,883.4
Stocks	79.5	70.4	81.6	75.4
Short-term Funds	538.7	477.2	777.9	719.1
Foreign Investments	1,827.4	1,618.6	1,617.2	1,494.9
Alternative Investments (Including Loans)	1,363.4	1,207.6	923.6	853.8
Others	187.1	165.7	188.5	174.2
Total	**5,878.5**	**5,206.8**	**5,626.3**	**5,200.9**

✻ Individual figures may not add up to the total shown due to rounding.

Investment Income

(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
Bonds	57.3	51.6	54.8	48.4
Stocks	-1.9	-1.7	6.0	5.3
Short-term Funds	9.0	8.1	12.7	11.2
Foreign Investments	83.1	74.8	-55.9	-49.3
Foreign Investments*	56.8	51.1	50.8	44.8
Alternative Investments (Including Loans)	51.3	46.2	7.4	6.5
Others	0.9	0.8	1.2	1.1
Total	**199.7**	**179.7**	**26.2**	**23.1**
Total*	**173.4**	**156.0**	**132.9**	**117.3**

* Gains and/or losses from foreign exchange hedging for insurance liabilities have been excluded.
✻ Individual figures may not add up to the total shown due to rounding.

Corporate Social Responsibility (CSR)

We have long been committed to doing good things for society and fulfilling our corporate social responsibility.

Making a Positive Impact on Society

(Re)insurance is all about helping people, communities and businesses in times of distress and protecting them against unexpected events. This is what Korean Re is committed to. In addition to doing good business, we seek various charitable ways to do good things for the communities where we live and work, making a positive impact on society.

1,998 hours

Total Hours Spent on Volunteering Activities

155 persons

Number of Volunteering Employees

Total Number of Employees : 352 persons

KRW 815 million

Contribution Amount

In 2018, we donated more than KRW 800 million to a number of charitable causes, and 155 employees participated in volunteering activities, with a total of 1,998 hours spent throughout the year. We continued to implement our regular employee volunteer programs designed to support underserved people and communities and those affected by natural disasters both at home and abroad.

Support of Disaster Recovery in Thailand

In February 2018, Korean Re sent a group of volunteers to Thailand to help rebuild a typhoon-hit community. Comprised of 18 Korean Re employees, including 15 new hires and two officials of Habitat for Humanity Korea, the volunteer team visited Ayutthaya, Thailand on February 5. Over a five-day period, they participated in a house-building project for a local village. Some of the activities included mixing concrete and laying bricks for internal and external walls of houses.

For the past five years, we have implemented an international corporate volunteering program to support the rehabilitation of communities devastated by natural disasters. Losses from natural catastrophes can have a devastating impact on individuals and businesses, and the (re)insurance industry helps them get back on their feet in the aftermath of a disaster. The first-hand experiences of being a part of the disaster relief effort allow our young employees to learn how essential function reinsurance can perform on communities as part of a social safety net.

Our overseas volunteering program is designed particularly for our new employees to give them the opportunity to have fully immersive experiences of volunteering for disaster relief activities. It helps them become more motivated, engaged and inspired as they start a new career at Korean Re. Social responsibility activities are not only about what we do for society but about encouraging a positive work atmosphere and healthy corporate culture.

Participation in MMC Charity Walk & Jog for Children with Cancer for 2018

Korean Re was invited to participate in the Marsh & McLennan Companies (MMC) Charity Walk & Jog for Children with Cancer for 2018, a charity event organized by Marsh Singapore on May 17.

Employees from our Singapore branch joined the event to support its cause. This charity initiative was part of MMC's corporate social responsibility efforts to give back to the community that they work in. It was sponsored by 26 reinsurers, including Korean Re.

We were pleased to sponsor the event as part of our social responsibility commitment to the community we serve. The event was held successfully, attracting 1,200 individual attendees from the reinsurance industry and members of MMC. Fay Cho, one of the participants from Korean Re, said, "Starting from Marina Barrage, we jogged all the way to Marina Bay. It was an exciting event where we could walk and enjoy the beautiful views of the areas along the course and network with people from our industry outside of the formal work settings."

Dedication Ceremony for Housing Repair Project

A dedication ceremony was held on October 24, 2018 to recognize Korean Re's contribution to a home repair and neighborhood revitalization project for Jeogok Village in Cheongju, North Chungcheong Province. The ceremony served as an opportunity to look back on how much improvement has been made over the past three years to the village in terms of housing conditions. It was also designed to raise awareness of the value of the home repair project, which aims to help people with poor housing conditions renew their homes and neighborhoods. It was attended by around 70 persons, including villagers, representatives from Korean Re and Habitat for Humanity Korea, and officials from the Cheongju city government.

We first engaged in the project in cooperation with Habitat for Humanity Korea in 2016 to support home repairs and improvements for the village where there were many decrepit houses aged 30 years or older. Located 17 kilometers away from downtown Cheongju, the village is home to 48 families and 114 residents.

Over the past three years, a total of 233 employees of Korean Re have participated in the repair of 42 old houses, which translated into 14,000 hours of volunteering work. We also donated funds worth KRW 390 million. Korean Re CEO Jong Gyu Won said during the ceremony, "I feel very proud to see this village improve and become a better place to live in. We at Korean Re will remain committed to fulfilling our social responsibility through various programs."

Initiatives to Support Low-Income Families

From October to November 2018, we organized four rounds of community food-sharing events at a local Red Cross volunteer center, where groups of Korean Re employees cooked food and baked bread. The food was packed and then delivered to those in need, including elderly people living alone and low-income families. A total of 50 families received the food package.

Meanwhile, we increased our donation to the community we sponsor regularly. On December 12, CEO Won and a group of 20 Korean Re employees visited Iwhadong – an inner city town in the neighborhood of the Korean Re head office in Jongno District, Seoul, and donated KRW 70 million worth of rice, food products and other necessities to financially difficult households in the community. Some of the packages were personally delivered door to door by Korean Re volunteers. We also visited a child support center in the community and provided supplies to children from low-income families. This annual giving initiative has continued since 2004, when Korean Re agreed to become a regular sponsor of the town. Through the donation program, we provide support to the less privileged in the community once every year.

We will continue to organize corporate volunteering and giving programs as we firmly uphold the value of giving back to the community where we do business. We believe that our company can benefit from such programs, as they help our employees improve their team-building skills, leading to increased morale and productivity.

FY 2018

Market Overview

Korean Economy

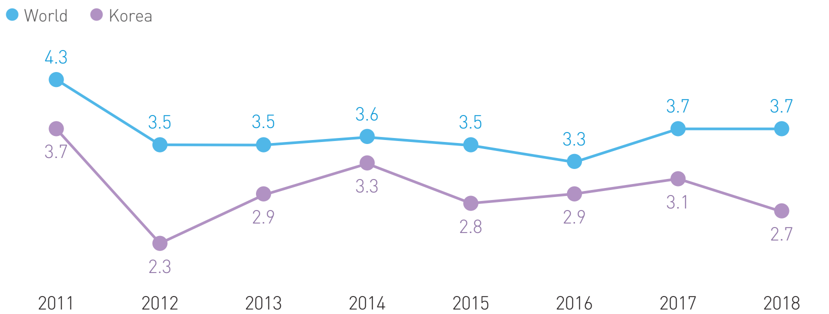
2018 in Review

GDP

In 2018, the Korean economy grew at the slowest pace in six years amid declining corporate investment. The nation's real gross domestic product (GDP) expanded by 2.7 percent in 2018, slowing down from 3.1 percent in 2017. A contraction in construction and equipment investment was the main drag on economic growth while private consumption, fiscal spending and exports helped shore up the economy. The growth rate remained below the pace of global economic growth. Meanwhile, Korea's per capita income reached USD 31,349, surpassing the USD 30,000 mark for the first time in 2018.

GDP Growth Trends

(Unit: %)



(Sources: IMF World Economic Outlook (October 2018), Bank of Korea)

Consumer Spending

The recovery of consumer spending growth remained robust, recording a seven-year high of 2.8 percent in 2018. The increase in private consumption was led by rising expenditure on services such as entertainment, medical and health care services. In the last quarter of the year, consumer spending picked up, with the level of growth in durables and semi-durables remaining strong.

Equipment Investment

In 2018, equipment investment declined by 1.6 percent, the lowest in nine years, as demand for business investment cooled in the midst of growing uncertainty surrounding macroeconomic conditions. In particular, weaker global demand for semiconductors discouraged chip-makers from investing in the expansion of their factory facilities. Investment in transportation equipment increased, but business spending on machinery dropped sharply.

Construction Investment

The construction industry fell into a slump, putting an end to several years of growth. Construction investment contracted by 4 percent, recording the biggest drop since the Asian financial crisis in 1998. Investment in building construction slipped into negative territory due in part to the government's measure to cool down the overheated housing market, while investment in civil works remained sluggish.

Korean Economy

Employment

The job market sharply contracted in 2018 as some industry sectors such as automobile manufacturers and shipbuilders remained in bad shape or went through restructuring. Social structural issues such as demographic changes also seemed to have an effect on labor market growth. The service sector experienced a slowdown in the growth of workforce, but the government's job creation policy helped add new service jobs in health and welfare services.

Inflation

Inflationary pressure remained weak in 2018, with the annualized inflation rate falling to 1.5 percent from 1.9 percent in the previous year. Due to bad weather conditions, the prices of agricultural products rose significantly, but an increase in livestock supply drove down prices. Industrial goods prices went up just modestly amid falling international oil prices. Utility prices continued to decline in the wake of a cut in home heating energy prices at the end of 2017.

Current Account Balance

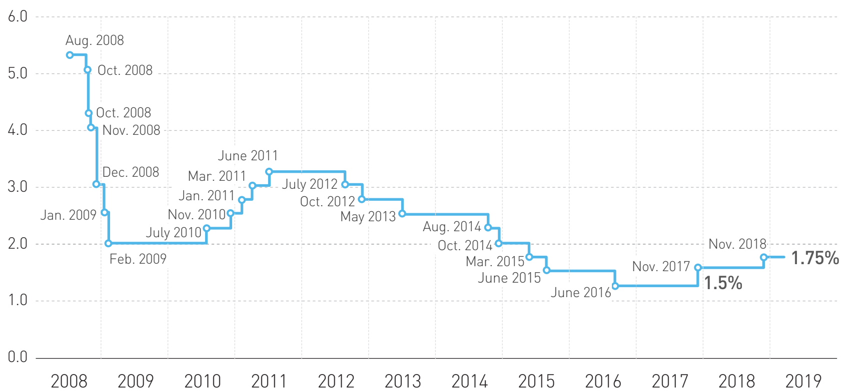
Korea's current account surplus slightly decreased to USD 76.4 billion in 2018. Merchandise account surplus shrank compared to the previous year, but service account deficit also reduced as the number of Chinese and Japanese tourists visiting Korea increased, helping to boost the total current account surplus. Primary income account surplus declined as domestic companies increased their dividend payout.

Interest Rates

The average three-year treasury yield increased to 2.1 percent in 2018 compared to 1.8 percent in the prior year. The Bank of Korea raised the nation's benchmark interest rate by 25 basis points to 1.75 percent on November 30, 2018 amid growing concern about ballooning household debt. The rate hike came for the first time in a year, reflecting the need to curb financial imbalances such as rising household debt and a widening gap between Korean and U.S. interest rates. The growing interest rate gap between the two countries has been blamed for an increase in capital outflows, posing risks to financial stability in Korea.

Trend of BOK Benchmark Interest Rate

(Unit: %)

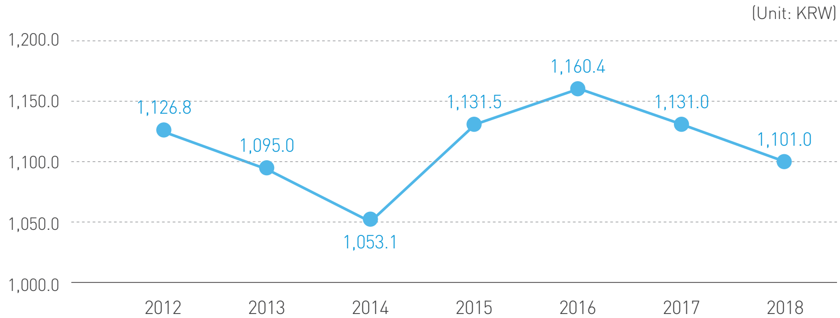


(Source: Bank of Korea)

Foreign Exchange Rate

The Korean won gained some strength against the U.S. dollar in 2018, with the yearly average exchange rate falling to KRW 1,101 per U.S. dollar. Throughout the year, the exchange rate remained relatively stable, showing range-bound movements. It shot up to over KRW 1,140 per U.S. dollar in October when investor confidence took a hit from a turmoil in the global stock markets, but fell again to around KRW 1,120 amid weakening expectations of interest rate hikes by the U.S. Fed.

KRW/USD Exchange Rate Trends



(Source: Bank of Korea)

Prospects for 2019

GDP

The Korean economy is expected to remain weak amid sluggish domestic demand and slowing equipment investment, with its GDP growth estimated at 2.5 percent for 2019. Rising government spending, private consumption and exports will continue to boost economic expansion, but the extent of exports contributing to economic growth is likely to decrease. Escalating trade tensions between major economies may affect Korea's exports adversely, and rising financial market volatility in some emerging economies is another external factor that may pose a risk to the Korean economy.

Consumer Spending

Consumer spending is expected to rise by 2.5 percent in 2019. Slower growth of wage income will pressure household income growth, with self-employment income growth also remaining weak amid sluggish business performance of the hospitality and dining industries. A hike in interest rates could pressure consumer confidence due to greater interest costs on household debt. However, government stimulus measures such as increased welfare spending and the stabilization of housing prices may help boost consumer confidence. Falling oil prices and the consequent downward pressure on consumer prices may contribute to the improvement of real purchasing power.

Equipment Investment

Equipment investment is projected to recover modestly, growing by 0.4 percent in 2019 following a sharp decline in 2018. Investment spending in the technology industry is likely to recover toward the end of the year, backed by a recovery in demand for semiconductors and other IT devices. The level of fresh investment activity in the non-IT sector will vary but will generally remain at a similar level compared to the previous year.

Construction Investment

Construction investment is expected to shrink by 3.2 percent in 2019 due to a fall in housing starts following a decline of 4 percent in 2018. The slump in the construction sector has been driven by housing oversupply, increasing household debt and the government's moves to rein in speculative investment in the housing market. The non-housing sector will also remain sluggish, but the pace of decline is likely to decelerate. However, an increase in government budget for social infrastructure in 2019 will have a positive impact on the construction market.

Employment

Job market conditions will likely improve on the back of the government's effort to subsidize income growth and create new jobs. Around 140,000 new jobs are projected to be created in 2019, up from 100,000 in the previous year. Both the jobless rate and employment rate are expected to remain similar to the prior year's at 3.8 percent and 60.7 percent, respectively. Employment in the manufacturing industry is expected to decline due to negative impacts from the automobile and IT sectors. In the service sector, new jobs will be added by the government's policy to spur job creation. A slowdown in employment cuts in the wholesale, retail, hospitality and dining industries will also help improve the service job market.

Inflation

Consumer price inflation is expected at 1.1 percent in 2019. The pace of price increase is likely to be moderate due to the slowing growth of housing prices and increased welfare support. Import prices will be weighed down by falling international oil prices and a weakening global economy. Agricultural prices are likely to go up only marginally due to a rise in vegetable supply in the midst of benign weather conditions. Wage increases may put upward pressure on service prices, and rising utility prices will also add to supply-side inflationary pressure. The core inflation rate, which excludes volatile food and energy prices, is forecast to be 1.4 percent in 2019, up from 1.2 percent in 2018.

Current Account Balance

Korea's current account surplus is anticipated to decrease to USD 66.5 billion in 2019, compared to USD 76.4 billion in 2018. The ratio of current account surplus to GDP is expected to be around four percent in 2019 and to further decline in 2020. This downward trend reflects shrinking merchandise account surplus, with import growth outweighing export growth amid increasing commodity prices. It is also attributable to a rise in service account deficit, with the travel and transportation sectors remaining in the red.

Interest Rates

The average three-year government bond rate is expected to increase to 2.3 percent in 2019 in line with a rising U.S. treasury bond rate. As the pace of hike in U.S. treasury bond rates is expected to pick up later in 2019, its impact on Korean government bond rates will continue into 2020. However, a less positive economic growth prospect for 2019, coupled with a lackluster job market, may lead monetary policymakers to be cautious about interest rate hikes.

Foreign Exchange Rate

The average KRW/USD exchange rate is projected at KRW 1,125 per U.S. dollar in 2019, slightly up from KRW 1,101 in 2018. The U.S. dollar is expected to continue to gain some strength amid rising interest rates in the U.S., the ongoing trade dispute between the U.S. and China, and skittish financial markets in emerging economies. The weakening domestic economy and decreasing current account surplus may also lead the Korean won to lose value against the greenback.

Key Economic indicators

(Unit: %)

	2017	2018	2019 (E)		
			First Half	Second Half	Annual
Real GDP	3.1	2.7	2.3	2.7	2.5
Consumer Spending	2.5	2.8	2.2	2.7	2.5
Equipment Investment	14.3	-1.6	-5.3	6.4	0.4
Construction Investment	7.2	-4.0	-6.4	-0.3	-3.2
Unemployment Rate	3.7	3.8	4.2	3.4	3.8
Current Account Surplus(USD billion)	78.5	76.4	24.0	42.0	66.5
Exports	3.6	4.0	1.4	3.9	2.7
Imports	7.3	1.9	-1.8	5.0	1.6
Consumer Price Inflation	1.9	1.5	0.7	1.4	1.1
Average Three-year Treasury Yield	1.8	2.1	2.2	2.4	2.3
KRW/USD Exchange Rate (KRW per USD 1)	1,131	1,101	1,130	1,121	1,125

(Sources: Bank of Korea, Korea Institute of Finance)

Korean Insurance Market

2018 in Review

The Korean insurance market continued to face some headwinds in 2018, with premium income declining by 0.3 percent compared to the previous year, as a slowdown in the domestic economy weighed on insurance market growth. The life insurance market remained in a slump due to decreasing sales of savings policies in the wake of reduced tax benefits, while the non-life insurance market managed to maintain some growth momentum backed by long-term and general property and casualty (P&C) lines of business. The overall profitability of the insurance industry came under pressure from slimmer margins, with the return on equity falling to 6.6 percent in 2018 from 7.7 percent in 2017. This represents a sharp decline from 12.7 percent in 2007.

Several social and regulatory headwinds have gathered pace to put downward pressure on both top-line and bottom-line growth, such as evolving demographics and upcoming changes in solvency regime, accounting standards, and sales commission structure. Insurers in Korea have been under strain to ensure their RBC ratios are maintained at a healthy level as the upcoming implementation of IFRS17 and a new RBC regime called K-ICS will burden their capitalization. Amid high levels of household debt, a rise in interest rates would add to mounting concerns over how people will continue to pay down their debt, discouraging them from buying new insurance. When people feel the pinch, they are more likely to surrender their insurance policies, adversely affecting the growth of the insurance market.

In 2018, life insurance premium income in Korea declined by 2.8 percent due to a 13.5 percent reduction in savings insurance premiums coupled with a slowdown in the growth of protection products. Non-life premium income grew by 3.1 percent on the back of the expansion of the long-term and general P&C insurance segments. Motor insurance premiums shrank, however, amid premium rate cuts and the growing popularity of low-cost online distribution channels.

Premium Income

(Unit: KRW trillion)

	FY 2018	FY 2017	Change (%)
Life Insurers	110.74	113.97	-2.8
Non-Life Insurers	91.04	88.34	3.1
Total	**201.78**	**202.31**	**-0.3**

✽ Individual figures may not add up to the total shown due to rounding.
(Source: Financial Supervisory Service)

Insurers in Korea collectively reported KRW 7.27 trillion in net income for 2018, down 7.4 percent from a year earlier. The contraction was driven by greater underwriting losses for the industry. Non-life insurers saw their net income plunge by 17.8 percent to KRW 3.24 trillion as increasing motor loss ratios drove up underwriting losses. Life insurers recorded a 3.1 percent growth in net income to over KRW 4.03 trillion despite weaker underwriting results as their investment gains improved.

Net Income

(Unit: KRW trillion)

	FY 2018	FY 2017	Change (%)
Life Insurers	4.03	3.91	3.1
Non-Life Insurers	3.24	3.94	-17.8
Total	**7.27**	**7.85**	**-7.4**

(Source: Financial Supervisory Service)

ROA and ROE

(Unit: %)

		FY 2018	FY 2017	Change (%p)
ROA	Life Insurers	0.48	0.48	-
	Non-Life Insurers	1.12	1.49	-0.37
	Total	**0.64**	**0.73**	**-0.09**
ROE	Life Insurers	5.54	5.71	-0.17
	Non-Life Insurers	8.80	11.64	-2.84
	Total	**6.63**	**7.67**	**-1.04**

(Source: Financial Supervisory Service)

Total Assets and Shareholders' Equity

(Unit: KRW trillion)

		FY 2018	FY 2017	Change (%)
Total Assets	Life Insurers	856.91	832.83	2.9
	Non-Life Insurers	298.70	277.20	7.8
	Total	**1,155.61**	**1,110.03**	**4.1**
Shareholders' Equity	Life Insurers	74.36	71.43	4.1
	Non-Life Insurers	38.32	35.28	8.6
	Total	**112.68**	**106.71**	**5.6**

* Individual figures may not add up to the total shown due to rounding.
(Source: Financial Supervisory Service)

In 2018, the decline in net income negatively affected profitability indicator ratios. The return on assets (ROA) ratio of the Korean insurance industry dropped slightly to 0.64 percent, while the return on equity (ROE) ratio was down 1.04 percentage points to 6.63 percent. Non-life insurers reported higher profitability than life insurers, with an ROA of 1.12 percent (versus 0.48 percent) and an ROE of 8.8 percent (versus 5.54 percent). Weak profitability posed a serious challenge to life insurance companies as they were struggling with underwriting margin compression as well as a negative growth in premium income.

At year end, insurers' total assets swelled by 4.1 percent year on year to KRW 1,155.6 trillion in 2018. Non-life insurers recorded a higher growth rate of 7.8 percent compared to life insurers, which saw their assets increase by 2.9 percent. The total assets of the industry were broken down into KRW 856.9 trillion for life insurance and KRW 298.7 trillion for non-life insurance. The total shareholders' equity of the insurance industry rose by 5.6 percent to KRW 112.7 trillion, driven by increases in capital and retained earnings.

Meanwhile, Korea's insurance penetration rate marginally fell to 11.6 percent in 2018, but its ranking remained high at 5th place in the world.

Insurance Penetration Rate

(Unit: %)

	FY 2018	FY 2017	Change (%p)
Insurance Penetration Rate	11.6	12.1	-0.5

(Source: Korea Insurance Research Institute)

Prospects for 2019

A slowing economy and increasing market maturity continue to thwart the growth of the insurance industry in Korea. Premium income is expected to diminish by 0.8 percent in 2019, following decreases of 0.3 percent in 2018 and 1.0 percent in 2017. New business premiums are likely to dip sharply in most lines of business except for variable savings life and long-term accident and health products. In particular, new business premiums from savings insurance will continue to decrease.

Insurance Market Growth Trends

(Units: KRW trillion, %)

	FY 2016		FY 2017		FY 2018		FY 2019(E)
	Premium	Growth Rate	Premium	Growth Rate	Premium	Growth Rate	Growth Rate
Life	119.79	2.2	113.97	-4.9	110.74	-2.8	-3.8
Non-Life	84.50	5.3	88.34	4.5	91.04	3.1	2.7
Total	**204.29**	**3.5**	**202.31**	**-1.0**	**201.78**	**-0.3**	**-0.8**
Real Economic Growth	2.9		3.1		2.7		2.5

(Sources: Korea Insurance Research Institute, Financial Supervisory Service)

Non-Life Insurance

Non-life premium income is anticipated to slow down to 2.7 percent in 2019, as sales of annuities and long-term savings policies remained sluggish due to increasing capital requirements. However, the market will continue to be backed by long-term accident and health insurance as well as general property and casualty (P&C) insurance.

The long-term insurance market is projected to grow by 1.9 percent amid slower growth for accident and health insurance, drivers' accident, property and convergence lines of business. The decline in long-term savings insurance premiums are set to accelerate further due to a reduction in sales commission and persistently low guaranteed interest rates.

The annuity insurance market is also slowing down, with premium income expected to grow by 4.4 percent. While the growth of retirement annuities is slowing down, individual annuities will continue to experience a decline in premiums as they are losing appeal to consumers due to a cut in tax benefits.

Motor insurance premiums are projected to grow by 0.5 percent. The increasing popularity of usage-based pricing plans and other endorsements that offer price discounts may lower the rates, dragging on the growth of the market, while a rise in repair costs and growing claims driven by abnormal weather conditions will lead to an increase in premium rates.

General P&C insurance will likely outperform the overall market with an estimated growth rate of 8.4 percent. Major drivers will be casualty lines of business, including surety insurance, rental deposit insurance, and personal finance credit insurance amid the growth of the mid-range interest rate lending business. The expansion of mandatory insurance such as disaster liability insurance is also supporting the growth of the general P&C insurance market.

Non-Life Insurance Market Growth Trends

(Units: KRW trillion, %)

	FY 2017		FY 2018		FY 2019(E)
	Premium	Growth Rate	Premium	Growth Rate	Growth Rate
Long-term	**49.09**	**2.8**	**50.58**	**3.0**	**1.9**
Annuity	**13.48**	**14.1**	**14.27**	**5.9**	**4.4**
Individual Annuity	3.70	-4.5	3.52	-4.9	-5.0
Retirement Annuity	9.78	23.1	10.75	9.9	7.5
Motor	**16.86**	**2.8**	**16.72**	**-0.8**	**0.5**
General P&C	**8.91**	**4.8**	**9.47**	**6.3**	**8.4**
Fire	0.30	-1.5	0.29	-3.3	-0.6
Marine	0.64	5.9	0.65	1.6	1.0
Guarantee	1.74	9.6	1.86	6.9	10.0
Casualty	6.23	3.7	6.67	7.1	9.0
Total	**88.34**	**4.5**	**91.04**	**3.1**	**2.7**

(Sources: Korea Insurance Research Institute, Financial Supervisory Service)

Life Insurance

The life insurance market is expected to contract by 3.8 percent in 2019. This reflects a continued fall in savings insurance premiums, driven by potential pressures on insurers' capitalization upon the adoption of IFRS17. While sales of variable savings policies are likely to grow, general savings life insurance will continue to fall out of favor among consumers due to low guaranteed interest rates, resulting in a 10.6 percent decline in overall savings insurance premiums.

Premium income from protection policies is projected to grow by 1.6 percent in 2019. The pace of growth continues to slow down from 2.1 percent in 2018 and 3.1 percent in 2017. Although life insurance companies have been focusing on selling protection products such as long-term health care and critical illness policies instead of savings products, the business of protection insurance remains under pressure due to the high degree of saturation of the whole life insurance market and a rise in policy cancellation in the midst of economic slowdown. A possible change in sales commission structure may also have an adverse impact on market growth. However, the trend of the development of various types of health insurance coupled with increasing demand for variable insurance may help boost the growth of the market.

Korean Insurance Market

Retirement annuity premiums are expected to increase by 3.1 percent due to the extended scope of people eligible for individual retirement pension accounts and an increase in minimum funding ratio for defined benefit plans. Rising wages are also boosting the growth of the retirement annuity market.

Life Insurance Market Growth Trends

(Units: KRW trillion, %)

	FY 2017		FY 2018		FY 2019(E)
	Premium	Growth Rate	Premium	Growth Rate	Growth Rate
Protection	40.57	3.1	41.41	2.1	1.6
Savings	38.87	-12.3	33.63	-13.5	-10.6
Retirement Annuity	34.53	-4.5	35.70	3.4	3.1
Total	**113.97**	**-4.9**	**110.74**	**-2.8**	**-3.8**

✻ Individual figures may not add up to the total shown due to rounding.
(Sources: Korea Insurance Research Institute, Financial Supervisory Service)

FY 2018

Financial Review

Management's Discussion & Analysis

Business Highlights

The Korean insurance market remained stagnant in 2018 as a slowdown in the domestic economy weighed on market growth. The volume of new business continued to decline amid weakening economic conditions. The life insurance market suffered a contraction due to falling sales of savings policies. However, non-life insurers managed to maintain their growth momentum, backed by long-term and general property and casualty (P&C) lines of business, although their profitability was dented in the wake of a spike in motor loss ratios.

Insurers in Korea have been under pressure to ensure their RBC ratios are maintained at a healthy level as the upcoming implementation of IFRS17 and a new RBC regime called K-ICS would put a strain on their capitalization. They are seeking various ways to increase their capital, such as the issuance of subordinated debt and hybrid capital securities and rights issues. Reinsurance also remains an important capital management tool for insurers because it can help them reduce the amount of required capital.

Korean Re achieved stable premium growth in 2018, with gross written premiums increasing by 4.9 percent to KRW 7,558.5 billion. We saw our net written premiums grow by 5.9 percent to KRW 5,318 billion. Our net income totaled KRW 102.9 billion for the year compared to KRW 133 billion a year before, reflecting a drop in underwriting results. The value of our total assets rose by KRW 685.6 billion year over year to KRW 10,750.9 billion as of late December 2018, while our invested assets amounted to KRW 5,879.6 billion, up KRW 256.1 billion year over year.

It was a considerably difficult year for our underwriting operations in 2018 due to tough market conditions and a significant impact from natural catastrophes in Asian countries and heatwaves in Korea. A spike in loss ratio for general P&C lines turned our years of underwriting profit into a loss in 2018, but this was more than offset by solid gains in investment profit, which allowed us to report an overall profit for the year. Looking ahead, we expect an improving return on investment to continue to boost our bottom line in 2019. Our underwriting results are also expected to improve as we seek to exercise strict underwriting discipline across diverse lines of business.

Analysis of Operating Results

Korean Re continued to grow its business in spite of challenging market conditions in 2018. We recorded a 4.9 percent growth in premium income, which totaled KRW 7,558.5 billion, backed by a strong top-line increase in our overseas business. Following double-digit growth in 2017, our overseas business grew by 12.2 percent in 2018, with gross written premiums reaching KRW 1,866.6 billion. This increase arose from the growth of property, life and motor lines of business with proven profit records. The pace of our domestic business growth slowed amid some stiff headwinds in the market, but premium income from our domestic portfolio continued to grow, recording a year over year rise of 2.7 percent.

Premium Volume

(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)	YoY Change*
Gross Written Premiums	7,558.5	6,801.5	7,208.1	6,360.8	4.9%
Net Written Premiums	5,318.0	4,785.4	5,021.8	4,431.5	5.9%
Earned Premiums	5,264.8	4,737.5	5,003.5	4,415.4	5.2%
Ceded Premiums	2,240.6	2,016.2	2,186.3	1,929.3	2.5%

* YoY Change is based on figures in KRW.

Gross Written Premiums: Domestic vs. Overseas

(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)	YoY Change*
Domestic	5,691.9	5,121.8	5,544.5	4,892.8	2.7%
Overseas	1,866.6	1,679.7	1,663.6	1,468.1	12.2%

* YoY Change is based on figures in KRW.

Gross Written Premiums by Line of Business

Property

Our property business grew by 8.2 percent on the back of strong growth of international property business. Our international property facultative business saw another year of robust growth, with gross written premiums soaring by 28.1 percent to KRW 104.3 billion in 2018. This resulted primarily from our efforts to increase line size on quality risks and to expand the current portfolio by exploring growth opportunities in untapped markets.

We were also pleased to see our international treaty business record an 18.2 percent rise in gross written premiums, which amounted to KRW 567.9 billion in 2018. This increase was driven by meaningful growth of our U.S. and European business. It is noteworthy that the strong growth came in the midst of competitive market conditions.

Domestically, we managed to bring negative impacts of market downturn on our business to a limited level. We saw our domestic property premiums decrease by 3.9 percent to KRW 511 billion in 2018, as our fire insurance premiums shrank by 23.4 percent to KRW 113 billion amid an increase in retention by local primary insurers. However, it was encouraging to see a 3.7 percent growth in our premium income from comprehensive insurance, which totaled KRW 398 billion. This was helped by our ongoing efforts to develop new business. As we focused on selective underwriting, our business results for domestic property business remained stable.

Engineering

We experienced negative growth across major commercial lines of business, driven by an impact from economic woes particularly with regard to the engineering and shipping industries, which remained largely sluggish. A downturn in the Korean construction market led to a decline in our domestic engineering premium income to KRW 126.6 billion. The decrease also had to do with major primary insurers' strategy to increase their retention levels.

For agriculture and other specialty lines, we reported a 9.8 percent increase in gross written premiums in 2018. Thanks to the continuous expansion of the primary agriculture insurance market, we saw our premium income rise by 6.5 percent for crop business and 29.2 percent for livestock business to KRW 174.6 billion and KRW 74.4 billion, respectively.

We recorded a double-digit growth in premium income in 2018 from our overseas agricultural business, which amounted to KRW 111 billion. Based on our experience in domestic crop insurance, we have been implementing overseas agricultural programs since 2014. We wrote business from 14 countries worldwide in 2018, and our effort to expand into overseas markets will continue to gain traction going forward.

Marine & Aviation

It was another challenging year for the marine insurance market, which was reeling from the restructuring of the shipping industry, where oversupply has been a major concern for several years. With this backdrop, our marine and aviation business recorded gross written premiums of KRW 517.9 billion for 2018, which was down 9.7 percent from the previous year.

Casualty

We reported a 1.5 percent increase in gross written premiums from casualty lines for 2018, although an unfavorable rating environment continued to work against the reinsurance industry. This growth came even after we cut down 10 percent and 9 percent, respectively, of our personal accident and liability businesses as part of our casualty portfolio readjustment. Main drivers behind the growth were the booming domestic credit insurance market and our rapidly expanding overseas business. There was also a significant increase in premium income from the global market, reflecting our effort to write more profitable overseas business. The share of overseas business in our entire casualty premiums remained relatively small, but the pace of growth has been quite exceptional for the last several years.

Life

Personal lines of business was the largest driver of growth as a growing book of life business contributed to the expansion of our domestic business. Our life business continued to deliver robust growth in 2018, with gross written premiums surging by 10.4 percent year over year to KRW 1,330 billion. Health insurance lines of business drove our domestic business growth. Our effort to partner with our clients to develop new products like simplified issue policies also helped boost our premium growth.

It was also an outstanding year for our overseas life business in 2018, as premium income soared by 21.4 percent, demonstrating the strength of our overseas business strategy. We continued to provide our reinsurance capacity to existing markets such as the U.S., China and Japan, with a steady increase in premiums and solid underwriting profit. We also expanded our overseas life portfolio by assuming new businesses in Chile and Colombia, helping to boost our global business growth.

Long-term

Long-term insurance was also an engine of premium growth for Korean Re in 2018, with gross written premiums rising by 9.1 percent to KRW 2,031 billion for the year. Long-term personal accident (PA) and disease insurance products continued to lead the domestic long-term insurance market to grow in spite of declining savings insurance sales due to reduced tax benefits.

Motor

We reported KRW 698.5 billion in motor premiums in 2018, up 2.3 percent from the year before. In the domestic market, we maintained existing programs covering higher risks along with both proportional and non-proportional treaties. Our business with cooperatives and mutual associations continued to increase, supporting the growth of our domestic business. In the overseas markets, we succeeded in increasing the level of diversification of our business portfolio by expanding into new markets in the Mediterranean and Eastern Europe.

Gross Written Premiums by Line of Business

(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)	YoY Change*
Property	1,183.6	1,065.1	1,093.6	965.1	8.2%
Engineering**	617.5	555.7	619.3	546.5	-0.3%
Marine & Aviation	517.9	466.0	573.6	506.2	-9.7%
Casualty	1,073.1	965.6	1,057.8	933.5	1.5%
Long-term	2,030.7	1,827.3	1,861.0	1,642.3	9.1%
Motor	698.5	628.5	682.7	602.5	2.3%
Life	1,329.6	1,196.4	1,204.6	1,063.0	10.4%
Overseas Branches	103.3	92.9	92.0	81.2	12.3%

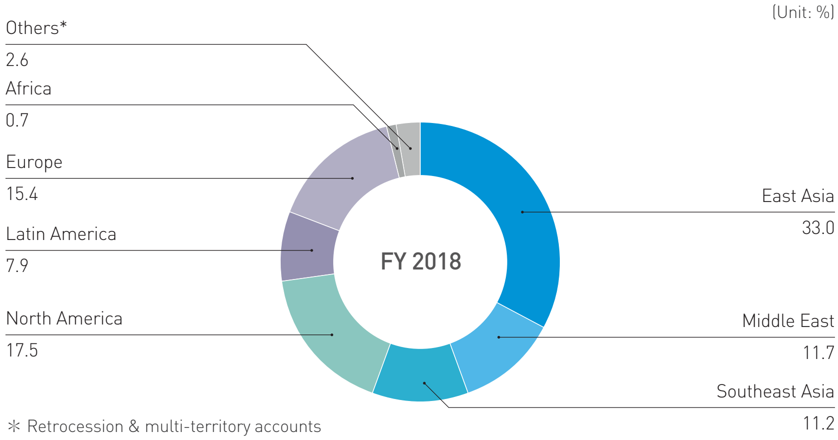
* YoY Change is based on figures in KRW.
** Engineering includes nuclear, agriculture and other specialty lines.

In line with the rise in gross written premiums, our net written premiums expanded by 5.9 percent to KRW 5,318 billion in 2018. The overall retention rate increased slightly from 69.7 percent in 2017 to 70.4 percent in 2018, backed by the growth of personal lines of business where the retention rate is normally high. Our strong overseas business performance also drove up our retention.

We saw a slight change in the geographical composition of our overseas business portfolio in 2018. The share of East Asia increased to 33 percent in 2018 from 30 percent in 2017 as we increased new life business in China and experienced a growth in Japanese property business. Our effort to expand into advanced markets continued, with the combined share of the Americas and Europe rising to 40.8 percent in 2018 from 35 percent in 2015. We will remain committed to our portfolio strategy to build a geographically balanced overseas book of business in the years to come.

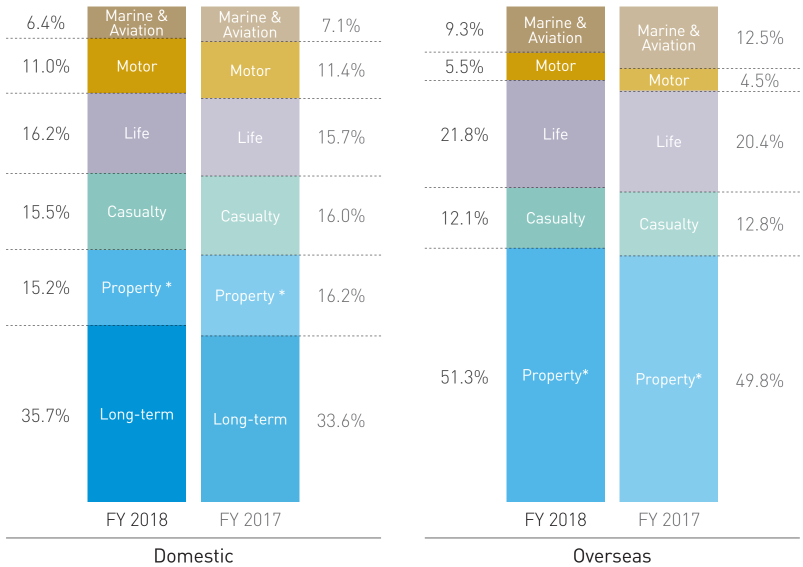
Overseas Business Portfolio by Region for 2018

(Unit: %)



* Retrocession & multi-territory accounts

Premium Income Portfolio by Line of Business: Domestic vs Overseas



*Property includes engineering, nuclear, agriculture and other specialty lines.

Combined Ratio

Korean Re experienced a challenging year in 2018 in terms of underwriting results amid increased loss activity across major commercial lines of business. Multiple natural catastrophe losses at home and abroad generated a combined ratio of 100.6 percent for the year, up 2.2 percentage points from the prior year. Domestic commercial lines remained profitable, but the combined ratio rose to 96.4 percent from 90.9 percent due to an increase in loss frequency and livestock losses from heatwaves. The combined ratio for our overseas business also went up to 104.6 percent as a series of strong tropical cyclones, including Typhoon Jebi, hit many parts of Asia, which makes up a strong portion of our overseas business portfolio. A rise in unusually high-severity engineering losses also negatively affected our overseas underwriting performance.

Our personal lines of business continued to show an improvement in profitability, with the combined ratio slightly falling to 99.5 percent amid improving expense ratios for our life, long-term and motor business. We expect that our strategy to reduce participation in underperforming treaties will help improve our combined ratio in the year ahead.

Management's Discussion & Analysis

Underwriting Results

(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)	YoY Change*
Incurred Losses	4,385.4	3,946.2	3,999.0	3,528.9	9.7%
Net Operating Expenses	911.9	820.6	925.8	817.0	-1.5%
Earned Premiums	5,264.8	4,737.5	5,003.5	4,415.4	5.2%
Combined Ratio**	100.6%		98.4%		2.2%p

* YoY Change is based on figures in KRW.
** Excluding foreign currency evaluation effects

Solvency Margin Ratio

We saw our solvency margin ratio decline to 211.5 percent in 2018 versus 221.1 percent in 2017, reflecting a reduction in net income results. The decrease in the ratio, also known as the RBC ratio, was also attributable to a growth in risk exposures as we continued to retain more business in line with top-line growth. Still, our solvency margin ratio remained far above the statutory minimum requirement of 100 percent under the Insurance Business Act, demonstrating that we stayed in robust financial shape.

Solvency Margin Ratio

	FY 2018	FY 2017	YoY Change
Solvency Margin Ratio	211.5%	221.1%	-9.6%p

Net Income

It was a difficult year for our underwriting operations in 2018, but we managed to deliver positive business results for the year with a net income of KRW 102.9 billion. Although we posted an underwriting loss of KRW 50 billion, our net investment income soared to KRW 196.6 billion, a noteworthy achievement in a less favorable investment environment. When excluding foreign exchange effects, our underwriting loss was KRW 36.7 billion, with net investment income amounting to KRW 173.4 billion, according to the Separate Financial Statements of the company.

Our underwriting operations reported a loss in the wake of increased claims activity in 2018. The deterioration in underwriting results stemmed mostly from a rise in loss ratio for domestic commercial lines and decreased profitability of our overseas business due to the increase in the frequency and intensity of natural disaster claims in Asia. Natural catastrophes in Asia Pacific cost the insurance industry massive losses in 2018 that were significantly higher than the average insured loss for 2000-2017.

We sustained KRW 57.6 billion in losses from several high-loss events including Typhoons Jebi and Trami in Japan and Typhoon Mangkhut in Hong Kong. An additional loss of KRW 47.4 billion was booked as the frequency of large-loss events was unusually high for our overseas engineering business, which had been traditionally performing well.

Our investment operations delivered strong results in 2018 thanks to our effective portfolio management. When excluding gains and losses from foreign exchange hedging for insurance liabilities, our net investment income surged by over 30 percent, with an investment yield of 3.1 percent. This improvement came amid a persistently low-yield investment climate. Since 2017, we have focused on rebalancing our investment portfolio to maintain an asset mix that best reflects our risk and return profile. To this end, we reduced our holdings of short-term funds and allocated more assets to loans and alternative investment vehicles that can generate stable investment income. Looking ahead, we believe this rebalancing strategy will continue to help us achieve our target returns by boosting interest gains.

Investment Income**

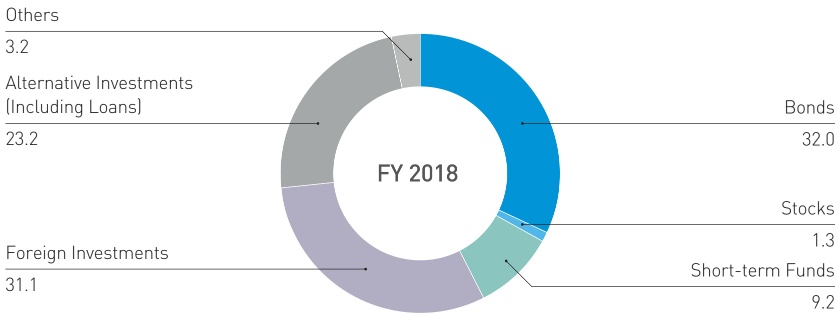
(Units: KRW billion, USD million)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
Bonds	57.3	51.6	54.8	48.4
Stocks	-1.9	-1.7	6.0	5.3
Short-term Funds	9.0	8.1	12.7	11.2
Foreign Investments	83.1	74.8	-55.9	-49.3
Foreign Investments*	56.8	51.1	50.8	44.8
Alternative Investments (Including Loans)	51.3	46.2	7.4	6.5
Others	0.9	0.8	1.2	1.1
Total	**199.7**	**179.7**	**26.2**	**23.1**
Total*	**173.4**	**156.0**	**132.9**	**117.3**

* Gains and/or losses from foreign exchange hedging for insurance liabilities have been excluded.
** Investment income result is based on the Separate Financial Statements of Korean Re, reflecting investment operation at the head office only.
※ Individual figures may not add up to the total shown due to rounding.

Investment Portfolio for 2018

(Unit: %)



Korean Re's Share Price

In 2018, the Korean stock market was on a roller-coaster ride, with plenty of ups and downs throughout the year. A number of factors hampered investor optimism, such as rising interest rates in the U.S., the ongoing trade woes between the U.S. and China, and a negative outlook for the global economy.

The Korea Composite Stock Price Index (KOSPI) hit an all-time high of 2,598.19 points on January 29, 2018 following the previous year's record-setting performance. At year end, KOSPI closed at 2,041.04, down 21.4 percent from its peak. This closing price also represented a 17.3 percent drop from the closing price of the previous year. The market hit a particularly rough patch in October 2018, with KOSPI going into free fall amid foreign investors' massive selling of Korean stocks. A large chunk of the total market capitalization evaporated in a month, leading KOSPI to nosedive by 13.4 percent, the biggest plunge since the global financial crisis in 2008.

The stocks of local P&C insurers mostly underperformed in 2018 after experiencing some rallies in 2017 on the back of strong underwriting gains and improving investment results. Most of them were caught up in the broad decline or moved sideways throughout the year as a low interest rate environment and a steep increase in motor loss ratio pressured their margins. However, they stood up relatively well to market turmoil, resisting further downward pressure as their profitability remained good compared to other industries and investor confidence picked up a little bit on the expectation of interest rate hikes.

The same went for Korean Re's stock. It was an incredibly bearish year for our stock performance in 2018, with the year-end closing price plummeting by 21.3 percent year over year to KRW 8,660. A sharp decline in our stock price followed on the heels of the freefall of KOSPI in October 2018, which was also concurrent with aggravating underwriting results.

Despite the weak stock performance, a majority of stock market analysts have offered an optimistic prospect for our stock price movement going forward. They agree that Korean Re's stock is substantially undervalued and has the potential for a notable turnaround. As of the year's end, the price-to-book ratio remained at 0.47. Heading into 2019, we expect our stock to gain some strength as our robust investment portfolio will likely continue to boost our bottom line, particularly with investment gains from the sale of Koramco Reits Management and Trust being recognized. We also expect our underwriting results to improve as we will consistently act to ensure that adequate discipline is maintained across all lines of business, especially for P&C lines.

Risk Management Report

Objectives

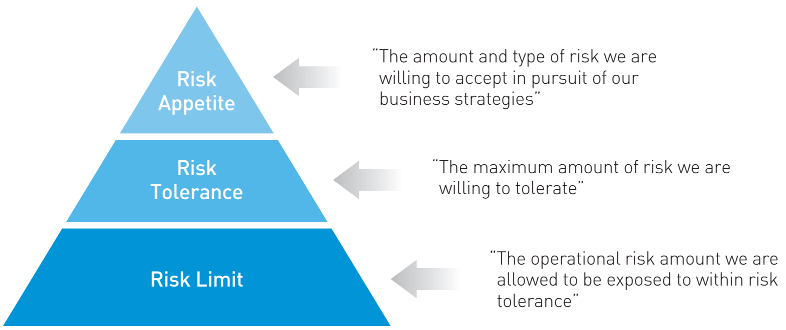
Korean Re implements enterprise risk management to achieve a set of risk management objectives. The objectives are as follows:

- Establishing risk management infrastructure to achieve Vision 2050
  : Creating long-term sustainable growth and high profitability
- Continuously enhancing shareholder value
- Maintaining a high credibility with stakeholders, credit rating agencies and supervisory agencies; and
- Diversifying insurance and investment portfolios and enhancing risk management with regard to overseas business growth

Strategic Risk Management

Korean Re's business strategy is aligned with the risk management strategy and risk appetite. The risk appetite framework provides the main direction to steer the company, and all risks are managed under the clear risk appetite framework. Based on the capital plan and financial targets linked to our risk appetite, we establish business plans and operate our business with stability by monitoring and evaluating business performance according to risk indicators.

Risk Appetite Framework



Korean Re's risk appetite framework is an enterprise-wide risk management guideline made up of three important components: risk appetite, risk tolerance, and risk limit.

Risk appetite defines the amount of risk we should accept in consideration of our vision and business objectives. The risk appetite statement is as follows:

- Focus on our comparable advantage business and achieve an ROE of more than 9 percent
- Retain risks conservatively at a medium-low level considering capital level
- Maintain the solvency ratio within an optimal rage (200-250 percent)
- Improve capital efficiency by optimizing insurance and investment portfolio; and
- Maintain credit ratings of "A" or above

Risk appetite plays a significant role in maintaining our risk profile within the boundaries defined by different objectives, such as profitability, solvency, growth, and liquidity. Risk appetite provides a solid foundation for decision-making: strategic asset allocation, capital planning, portfolio management and more.

Risk tolerance represents a quantitative level of risk acceptance within the risk appetite and provides macro guidelines for capital adequacy, liquidity, and concentration. The risk tolerance statement is as follows:

- Maintain the solvency ratio within a stable range (above 170 percent)
- Continuously improve Risk Adjusted Return on Capital (RAROC)
- Annual natural catastrophe losses $\leq$ 15 percent of available capital
- Ability to meet current and ongoing financial obligations (liquidity)
  - Keeping the liquidity ratio over 100 percent under a stressed scenario

Risk limit describes the risk capacity constraints determined by capital and liquidity resources to ensure compliance with our risk appetite and risk tolerance.

Capital Management

Korean Re's capital is managed through a framework which provides a robust foundation for capital management. To ensure Korean Re's sound capital management, we align our risk management strategy with our long-term business strategy. Strategic objectives are examined from the perspective of risk management strategy to be certain if they are in accordance with our risk appetite, and the results are reflected in the business plans. Also, we establish a detailed capital management plan to make sure our solvency ratio is maintained within the optimal range. Korean Re's capital management framework is comprised of three main modules: capital planning, business planning, and risk planning. Each module is structured to ensure compliance with Korean Re's risk appetite and tolerance.

Optimized Portfolio

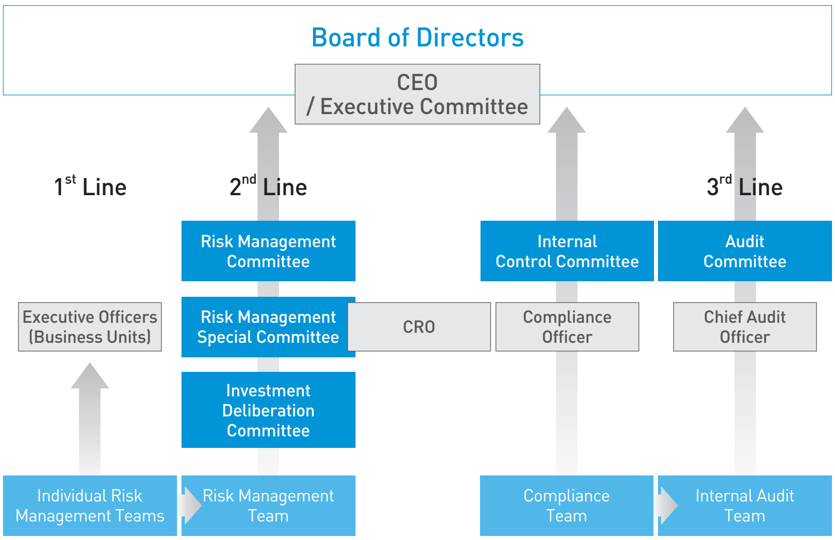
Korean Re conducts business planning by analyzing risk and profitability of its business. We measure the Return on Risk Adjusted Capital (RORAC) of each line of insurance business and investment asset portfolio through our internal model. Based on this, the Strategic Planning Office draws up plans for optimal portfolios and then finalizes annual plans that can help the company achieve capital efficiency under risk appetite and improve RORAC.

Risk Governance

Korean Re has built a comprehensive framework for risk governance based on central oversight and controls of risks with clear accountability. This structure supports risk-based decision-making and oversight across all operations of our business. Risk governance defines the roles and responsibilities of the Board of Directors, committees, management and related teams. It also involves the implementation of three lines of defense.

A "Three Lines of Defense model" that we implement demonstrates our risk governance, specifying the roles of business and oversight organizations in managing our risk profile. The first line of defense includes front-line managers and staff who are responsible for day-to-day risk management and decision-making (the global office staff are also the first line of defense). They have the primary responsibility for maintaining an effective control environment and ensuring that all activities are within our risk appetite. The second line of defense deals with setting risk policies and overseeing our risk management status. This all involves the Risk Management Team, Chief Risk Officer, risk management committees, and compliance functions such as the Compliance Team, Compliance Officer and Internal Control Committee. The third line of defense provides independent assurance through an internal audit and validates the effectiveness of the first and second lines of defense in fulfilling their responsibilities and managing our risk profile.

Three Lines of Defense



Key Risks

We manage six key risks—insurance risk, credit risk, market risk, liquidity risk, emerging risk, and operational risk, including strategy, reputation, regulation, and legal risks—that are likely to have a significant impact on our financial results or operational viability. In doing so, we implement a series of procedures including risk identification, measurement, control, analysis, and reporting.

Key Risks

Insurance Risk	Financial Risk	Liquidity Risk
• Premium Risk • Reserve Risk • Nat. Cat. Risk	**Market Risk** • Interest Rate Risk • Equity Risk • Exchange Rate Risk **Credit Risk**	**Operational Risk** **Emerging Risk**

With regard to insurance, market and credit risks, we measure them on a regular basis using our internal model that takes the Value-at-Risk approach through stochastic simulation.

Insurance Risk

Korean Re defines insurance risk as the risk of unexpected financial losses arising from the inadequacy of premiums or reserves for natural catastrophe or non-catastrophe events, or from the unpredictability of biometric risks such as the mortality rate.

We manage insurance risk in a consistent manner across all lines of business by assessing and monitoring it in accordance with clearly defined underwriting guidelines.

Furthermore, we utilize a natural catastrophe modelling program and an accumulation management system to effectively control catastrophe risk at the enterprise level.

Market Risk

Korean Re defines market risk as the risk of losses arising from fluctuations of the value of assets and liabilities due to changes in relevant factors, such as interest rates, stock prices and foreign exchange rates. We manage this risk in our day-to-day operations and, in particular, hedge against foreign exchange risk using derivatives in order to keep our exposure at a reasonable level.

Meanwhile, we closely monitor global economic and financial market conditions and outlook that can affect our investment performance in order to analyze their potential impact and come up with effective countermeasures.

Credit Risk

Our credit risk system focuses on any losses arising from the failure of the counterparty to a reinsurance contract to meet its contractual obligations or from deterioration in the credit quality of invested assets.

We conduct an analysis of potential losses before making any high-risk business decisions, for example, on whether to write new business or invest in derivatives. When necessary, such decisions are made through the review process of the Risk Management Special Committee and the Investment Deliberation Committee. Identifying any abnormal signs related to the retained risks is also an essential element of our preemptive risk management system.

Liquidity Risk

We plan and manage our liquidity positions in order to deal with future claims payments and expenses as they arise. To this end, we set liquidity limits based on our future cash flow and monitor them regularly.

Operational Risk

Korean Re defines operational risk as the risk of potential losses arising from inadequate or failed internal processes, personnel or systems, or from external events. We have identified a set of operational risk categories that cover various business units and activities, including strategy, reputation, new product development, and claims management.

We manage operational risk through effective policies and procedures, including a clear segregation of duties and timely internal control and reporting systems. Through the internal control system, operational risk is managed systemically based on the Code of Conduct, regulations and ethics.

Emerging Risk

Emerging risk involves new threats, critical risks or evolving risks that may adversely affect our business. We identify emerging risk through an internal expert group called Think Tank. We set and implement risk mitigation measures and regularly monitor the residual risk and target risk.

Consolidated Statements of Financial Position

As at December 31, 2018 and 2017

(Units: KRW million, USD thousand)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
Assets				
Ⅰ. Cash and cash equivalents	175,567	155,507	129,265	119,491
Ⅱ. Financial assets:	8,320,168	7,369,502	7,842,970	7,249,927
1. Deposits	269,931	239,089	298,731	276,143
2. Financial assets at fair value through profit or loss	383,419	339,609	697,258	644,535
3. Available-for-sale financial assets	2,374,325	2,103,034	2,444,769	2,259,908
4. Held-to-maturity financial assets	1,560,885	1,382,538	1,199,720	1,109,004
5. Derivative financial assets designated as hedges	3,456	3,061	27,698	25,604
6. Loans	932,719	826,146	668,009	617,498
7. Receivables	2,795,434	2,476,027	2,506,785	2,317,235
Ⅲ. Property and equipment	77,298	68,466	79,440	73,433
Ⅳ. Investment properties	110,237	97,641	110,080	101,756
Ⅴ. Intangible assets	15,325	13,574	18,033	16,669
Ⅵ. Other non-financial assets	2,052,262	1,817,770	1,885,521	1,742,948
Total assets	**10,750,857**	**9,522,460**	**10,065,308**	**9,304,224**
Liabilities				
Ⅰ. Insurance contract liabilities	5,578,506	4,941,104	5,157,756	4,767,754
Ⅱ. Financial liabilities	2,585,810	2,290,354	2,388,892	2,208,257
Ⅲ. Other non-financial liabilities	348,926	309,058	355,643	328,752
1. Current income tax liabilities	157	139	41,148	38,037
2. Deferred tax liabilities	316,543	280,375	280,995	259,748
3. Net defined benefit liabilities	13,061	11,569	11,243	10,393
4. Other liabilities	19,165	16,975	22,257	20,574
Total liabilities	**8,513,243**	**7,540,516**	**7,902,292**	**7,304,763**
Equity				
Ⅰ. Capital stock	60,185	53,308	60,185	55,634
Ⅱ. Capital surplus	176,375	156,222	176,375	163,038
Ⅲ. Hybrid equity security	212,286	188,030	212,286	196,234
Ⅳ. Capital adjustments	(35,311)	(31,276)	(35,311)	(32,641)
Ⅴ. Accumulated other comprehensive income	121,880	107,954	105,882	97,876
Ⅵ. Retained earnings	1,702,200	1,507,706	1,643,600	1,519,320
Total shareholders' equity	**2,237,614**	**1,981,943**	**2,163,017**	**1,999,461**
Total liabilities and shareholders' equity	**10,750,857**	**9,522,460**	**10,065,308**	**9,304,224**

Note: For the B/S section, Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,129.00 per USD 1 for FY 2018 and KRW 1,081.80 for FY 2017. For the I/S section, the applicable exchange rate was KRW 1,111.30 per USD 1 for FY 2017 and KRW 1,133.20 for FY 2017.

＊ Individual figures may not add up to the total shown due to rounding.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(Units: KRW million, USD thousand)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
I . Operating revenue	**9,892,498**	**8,901,735**	**9,116,763**	**8,045,147**
1. Premium income	7,558,524	6,801,515	7,208,079	6,360,818
2. Reinsurance income	1,695,181	1,525,404	1,309,763	1,155,809
3. Expenses recovered	342,885	308,544	335,531	296,092
4. Interest income	148,104	133,271	122,394	108,007
5. Dividend income	17,081	15,370	16,093	14,201
6. Investment income from financial instruments	22,731	20,454	73,987	65,290
7. Other operating revenues	107,993	97,177	50,915	44,930
II . Operating expenses	**9,748,914**	**8,772,531**	**8,941,116**	**7,890,148**
1. Reinsurance expenses	2,240,563	2,016,164	2,186,328	1,929,340
2. Insurance claims and benefits expenses	5,766,243	5,188,737	5,036,675	4,444,648
3. Provision for insurance contract liabilities	281,391	253,209	111,053	97,999
4. Operating and administrative expenses	1,253,245	1,127,729	1,263,667	1,115,131
5. Claim handling expenses	106,534	95,864	95,197	84,007
6. Asset management expenses	3,060	2,754	2,791	2,463
7. Interest expenses	10	9	6	5
8. Investment expenses from financial instruments	50,687	45,611	58,806	51,894
9. Other operating expenses	47,182	42,457	186,594	164,661
III. Operating income	**143,584**	**129,204**	**175,646**	**154,999**
IV. Non-operating income	**1,004**	**903**	**242**	**214**
V . Non-operating expenses	**10,154**	**9,137**	**2,440**	**2,153**
VI. Income before income taxes	**134,434**	**120,970**	**173,449**	**153,060**
VII. Income tax expenses	**31,490**	**28,336**	**40,440**	**35,687**
VIII. Net income	**102,944**	**92,634**	**133,008**	**117,373**
IX. Other comprehensive income (loss)	**15,997**	**14,395**	**(33,963)**	**(29,971)**
X . Total comprehensive income	**118,942**	**107,030**	**99,045**	**87,402**

Note: For the B/S section, Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,129.00 per USD 1 for FY 2018 and KRW 1,081.80 for FY 2017. For the I/S section, the applicable exchange rate was KRW 1,111.30 per USD 1 for FY 2017 and KRW 1,133.20 for FY 2017.

※ Individual figures may not add up to the total shown due to rounding.

Consolidated Statements of Changes in Equity (KRW)

For the years ended December 31, 2018 and 2017

(Unit: KRW million)

	Capital stock	Capital surplus	Hybrid equity security	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
As at January 1, 2017	**60,185**	**176,375**	**212,286**	**(35,311)**	**139,845**	**1,558,206**	**2,111,586**
Cash dividends	-	-	-	-	-	(37,332)	(37,332)
Dividends of hybrid equity security	-	-	-	-	-	(10,282)	(10,282)
Net income	-	-	-	-	-	133,008	133,008
Loss on valuation of available-for-sale financial assets	-	-	-	-	(27,395)	-	(27,395)
Loss on valuation of held-to-maturity financial assets	-	-	-	-	(3,647)	-	(3,647)
Exchange difference on translating foreign operations	-	-	-	-	(8,536)	-	(8,536)
Gain on valuation of derivative instruments designated as cash flow hedges	-	-	-	-	2,337	-	2,337
Gain on remeasurement of the net defined benefit liabilities	-	-	-	-	3,278	-	3,278
Total comprehensive income	**-**	**-**	**-**	**-**	**(33,963)**	**133,008**	**99,045**
As at December 31, 2017	**60,185**	**176,375**	**212,286**	**(35,311)**	**105,882**	**1,643,600**	**2,163,017**
As at January 1, 2018	**60,185**	**176,375**	**212,286**	**(35,311)**	**105,882**	**1,643,600**	**2,163,017**
Cash dividends	-	-	-	-	-	(34,461)	(34,461)
Dividends of hybrid equity security	-	-	-	-	-	(9,902)	(9,902)
Net income	-	-	-	-	-	102,944	102,944
Gain on valuation of available-for-sale financial assets	-	-	-	-	14,003	-	14,003
Gain on valuation of held-to-maturity financial assets	-	-	-	-	346	-	346
Exchange difference on translating foreign operations	-	-	-	-	2,701	-	2,701
Loss on valuation of derivative instruments designated as cash flow hedges	-	-	-	-	(671)	-	(671)
Loss on derecognition of asset revaluation surplus	-	-	-	-	(19)	19	-
Loss on remeasurement of the net defined benefit liabilities	-	-	-	-	(362)	-	(362)
Total comprehensive income	**-**	**-**	**-**	**-**	**15,997**	**102,963**	**118,960**
As at December 31, 2018	**60,185**	**176,375**	**212,286**	**(35,311)**	**121,880**	**1,702,200**	**2,237,614**

* Individual figures may not add up to the total shown due to rounding.

Consolidated Statements of Changes in Equity (USD)

For the years ended December 31, 2018 and 2017

(Unit: USD thousand)

	Capital stock	Capital surplus	Hybrid equity security	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
As at January 1, 2017	**53,308**	**156,222**	**188,030**	**(31,276)**	**123,866**	**1,380,165**	**1,870,315**
Cash dividends	-	-	-	-	-	(33,066)	(33,066)
Dividends of hybrid equity security	-	-	-	-	-	(9,107)	(9,107)
Net income	-	-	-	-	-	117,810	117,810
Loss on valuation of available-for-sale financial assets	-	-	-	-	(24,265)	-	(24,265)
Loss on valuation of held-to-maturity financial assets	-	-	-	-	(3,230)	-	(3,230)
Exchange difference on translating foreign operations	-	-	-	-	(7,561)	-	(7,561)
Gain on valuation of derivative instruments designated as cash flow hedges	-	-	-	-	2,070	-	2,070
Gain on remeasurement of the net defined benefit liabilities	-	-	-	-	2,903	-	2,903
Total comprehensive income	**-**	**-**	**-**	**-**	**(30,082)**	**117,810**	**87,728**
As at December 31, 2017	**53,308**	**156,222**	**188,030**	**(31,276)**	**93,784**	**1,455,802**	**1,915,870**
As at January 1, 2018	**53,308**	**156,222**	**188,030**	**(31,276)**	**93,784**	**1,455,802**	**1,915,870**
Cash dividends	-	-	-	-	-	(30,523)	(30,523)
Dividends of hybrid equity security	-	-	-	-	-	(8,771)	(8,771)
Net income	-	-	-	-	-	91,182	91,182
Gain on valuation of available-for-sale financial assets	-	-	-	-	12,403	-	12,403
Gain on valuation of held-to-maturity financial assets	-	-	-	-	306	-	306
Exchange difference on translating foreign operations	-	-	-	-	2,392	-	2,392
Loss on valuation of derivative instruments designated as cash flow hedges	-	-	-	-	(594)	-	(594)
Loss on derecognition of asset revaluation surplus	-	-	-	-	(17)	17	-
Loss on remeasurement of the net defined benefit liabilities	-	-	-	-	(321)	-	(321)
Total comprehensive income	**-**	**-**	**-**	**-**	**14,169**	**91,198**	**105,368**
As at December 31, 2018	**53,308**	**156,222**	**188,030**	**(31,276)**	**107,954**	**1,507,706**	**1,981,943**

Note: Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,129.00 per USD 1.

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Units: KRW million, USD thousand)

	FY 2018 (KRW)	FY 2018 (USD)	FY 2017 (KRW)	FY 2017 (USD)
Ⅰ. Cash flows from operating activities	**309,058**	**273,745**	**559,592**	**517,279**
1. Income before income taxes	134,434	119,074	173,449	160,334
2. Cash generated from operations	100,710	89,203	279,928	258,761
3. Receipt of interest	130,822	115,874	99,911	92,356
4. Payment of interest	(144)	(128)	(272)	(251)
5. Receipt of dividend	17,081	15,129	16,093	14,876
6. Payment of income taxes	(73,844)	(65,407)	(9,517)	(8,797)
Ⅱ. Cash flows from investing activities	**(219,439)**	**(194,366)**	**(578,986)**	**(535,206)**
1. Cash inflows	563,263	498,904	288,402	266,595
2. Cash outflows	(782,702)	(693,270)	(867,388)	(801,801)
Ⅲ. Cash flows from financing activities	**(44,545)**	**(39,455)**	**(47,527)**	**(43,934)**
1. Cash inflows	18	16	141	130
2. Cash outflows	(44,563)	(39,471)	(47,668)	(44,064)
Ⅳ. Net increase(decrease) in cash and cash equivalents (Ⅰ + Ⅱ + Ⅲ)	**45,074**	**39,924**	**(66,921)**	**(61,861)**
Ⅴ. Effects of changes in foreign exchange rates on cash and cash equivalents	**1,229**	**1,089**	**2,588**	**2,393**
Ⅵ. Cash and cash equivalents at the beginning of the year	**129,265**	**114,495**	**193,597**	**178,959**
Ⅶ. Cash and cash equivalents at the end of the year	**175,567**	**155,507**	**129,265**	**119,491**

Note: For the B/S section, Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,129.00 per USD 1 for FY 2018 and KRW 1,081.80 for FY 2017. For the I/S section, the applicable exchange rate was KRW 1,111.30 per USD 1 for FY 2017 and KRW 1,133.20 for FY 2017.

* Individual figures may not add up to the total shown due to rounding.

Notes to Consolidated Financial Statements

1. Summary of significant accounting policies

(1) Basis of financial statement preparation

The Company and its subsidiaries (collectively referred to as the "Group") prepare statutory consolidated financial statements in the Korean language in accordance with Korea International Financial Reporting Standards ("K-IFRS") enacted by the Act on External Audit of Stock Companies. The accompanying consolidated financial statements have been translated into English from the Korean language consolidated financial statements. In the event of any differences in interpreting the consolidated financial statements or the independent auditor's report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss ("FVTPL"), derivative financial instruments designated as hedges and available-for-sale ("AFS") financial instruments which are measured at fair value.

The carrying amounts of assets and liabilities designated as hedged items of fair value hedge are not recorded at amortized cost but recorded after reflecting the change in fair value corresponding to the risk hedged in effective hedge relationships.

The consolidated financial statements are presented in the Korean won ("KRW") and all values are rounded to the nearest millions, except when otherwise indicated.

The Group has changed the classification of some accounts in the prior year consolidated financial statements to be consistent with that in the current year consolidated financial statements for the purpose of easier comparison. The reclassification does not have any impact on the net income or net assets reported last year.

(2) Classification and measurement of financial assets

Financial assets within the scope of K-IFRS 1039 are classified as financial assets at FVTPL, available-for-sale financial assets, held-to-maturity financial assets, loans and receivables, or as derivative financial assets designated as hedges, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date when the Group commits to purchase or sell the asset.

All financial assets are recognized initially at fair value plus transactions costs, except in the case of financial assets recorded at fair value through profit and loss.

(3) Foreign currency transactions

When preparing of the consolidated financial statements, the Group measures and recognizes all the transactions according to the functional currency. The term, functional currency, is defined as the currency used to conduct operating activities in the primary economic environment and trades in each entity between the functional currency and other currencies which are converted to the Group's functional currency to be measured and recognized.

(4) Reinsurance assets

Reinsurance assets are defined as a cedant's net contractual right under a reinsurance contract by K-IFRS 1104 "Insurance Contract" and are recorded in the amount a reinsurer assumed as insurance contract liabilities. Reinsurance assets are not offset against the relevant insurance contract liabilities, and reinsurance income or expense arising from the reinsurance arrangements are not offset against the relevant expense or income resulting from the relevant insurance contracts. The Group considers whether the reinsurance assets are impaired at each reporting date and if the reinsurance assets are impaired the Group reduces its carrying amount and accordingly, recognizes impairment loss in profit or loss.

(5) Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and accumulated impairment in value. Such cost includes an expenditure which has directly occurred for the acquisition of the asset. The initial and subsequent costs are recognized as an asset when it is probable that future economic benefits associated with the asset will flow to the Group and the costs of the asset can be measured reliably. The other maintenances and repairs are expensed in the year in which they are incurred and the carrying amount of certain parts that are replaced is derecognized. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the related asset if the recognition criteria for a provision are met.

(6) Investment properties

Investment properties are recognized as assets only if it is probable that future economic benefits associated with the assets will flow to the Group and the costs of the assets can be measured reliably. Investment properties are initially recognized at cost and transaction costs are included in the initial measurement. The investment properties are also subsequently measured at cost.

Investment properties are derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising from the derecognition of the assets calculated as the difference between the net disposal proceeds and the carrying amount of the assets is recognized as profit or loss in the consolidated statement of profit or loss and other comprehensive income in the period in which the asset is derecognized. Transfers are made to or from investment properties only when there is a change in use.

(7) Insurance contract liabilities

In accordance with the Insurance Business Act ("IBA") and the Regulation on Insurance Supervision ("RIS"), the Group is required to maintain insurance contract liabilities validated by the Group's appointed actuary, and the details are as follows:

(a) Reserve for outstanding claims

The reserve for outstanding claims refers to a provision for claims received but not settled including claims on a lawsuit at the reporting date. It includes a provision for claims not received, and therefore not yet settled, on the insurance policies where the events causing the payment of claims have occurred at the reporting date. The amount collectible from exercising the compensation right or disposal of insured assets acquired by the Group is reported as a deduction from insurance contract liabilities.

(b) Unearned premium reserve

The Group is required to maintain an unearned premium reserve, which is the premium whose payment date belongs to the current year and whose applicable period has not yet commenced at the end of the reporting period.

(8) Hybrid equity security

Hybrid equity security is classified as an equity only if its contractual arrangements at the time of the issuance of the security meet the criteria to be classified as an equity.

2. Translation of consolidated financial statement indicated in foreign currencies.

Assets and liabilities, including equity indicated in the consolidated financial statements, are translated into the U.S. Dollar at the rate of KRW 1,129.00 to USD 1, the telegraphic transfer selling rate of exchange as at December 31, 2018. The profit and loss account is translated at KRW 1,111.30 to USD 1, the average exchange rate of the period.

3. Cash and cash equivalents

Cash and cash equivalents as at December 31, 2018 are as follows:

(Units: KRW million, USD thousand)

	FY 2018 (KRW)	FY 2018 (USD)
Cash on hand	2	2
Short-term bank deposits	175,565	155,505
Total	**175,567**	**155,507**

4. Financial assets

Carrying value and fair value of financial assets as at December 31, 2018 are as follows:

(Units: KRW million, USD thousand)

	Carrying value		Fair value	
	(KRW)	(USD)	(KRW)	(USD)
Deposits	269,931	239,089	269,931	239,089
Financial assets at FVTPL	383,419	339,609	383,419	339,609
Available-for-sale financial assets	2,374,325	2,103,034	2,374,325	2,103,034
Held-to-maturity financial assets	1,560,885	1,382,538	1,574,480	1,394,579
Derivative financial assets designated as hedges	3,456	3,061	3,456	3,061
Loans	932,719	826,146	959,879	850,203
Receivables	2,795,434	2,476,026	2,795,431	2,476,024
Total	**8,320,168**	**7,369,502**	**8,360,921**	**7,405,599**

5. Deposits

Deposits as at December 31, 2018 are as follows:

(Units: KRW million, USD thousand)

	FY 2018 (KRW)	FY 2018 (USD)
Term deposits	60,500	53,587
Overseas deposits	53,601	47,477
Other deposits	155,830	138,025
Total	**269,931**	**239,089**

6. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss as at December 31, 2018 are as follows:

(Units: KRW million, USD thousand)

	FY 2018 (KRW)	FY 2018 (USD)
Stock	9,704	8,595
Beneficiary certificates	365,319	323,578
Derivative financial assets held-for-trading	1,852	1,640
Securities in foreign currencies	6,544	5,796
Total	**383,419**	**339,609**

7. Available-for-sale financial assets

Available-for-sale financial assets as at December 31, 2018 are as follows:

(Units: KRW million, USD thousand)

	FY 2018 (KRW)	FY 2018 (USD)
Stock	69,784	61,811
Equity investment	115,084	101,935
Government and public bonds	48,754	43,183
Special bonds	487,956	432,202
Corporate bonds	666,841	590,647
Beneficiary certificates	313,510	277,688
Securities in foreign currencies	667,762	591,463
Others	4,634	4,105
Total	**2,374,325**	**2,103,034**

8. Held-to-maturity financial assets

Held-to-maturity financial assets as at December 31, 2018 are as follows:

(Units: KRW million, USD thousand)

	FY 2018 (KRW)	FY 2018 (USD)
Government and public bonds	528,865	468,437
Special bonds	19,889	17,616
Corporate bonds	130,107	115,241
Securities in foreign currencies	882,024	781,244
Total	**1,560,885**	**1,382,538**

9. Loans and receivables

Loans and receivables as at December 31, 2018 are as follows:

(Units: KRW million, USD thousand)

	FY 2018 (KRW)	FY 2018 (USD)
Loans		
Loans secured by securities	445,998	395,038
Loans secured by real-estate	333,152	295,086
Credit loans	1,010	895
Guaranteed loans	70,976	62,866
Other loans	87,823	77,788
Subtotal	**938,959**	**831,673**
(Allowance for possible loan losses)	(3,800)	(3,366)
(Present value discount)	(349)	(309)
(Deferred loan fee and costs)	(2,091)	(1,852)
Receivables		
Insurance receivables	2,761,496	2,445,966
Accounts receivables	401	355
Accrued income	58,224	51,571
Guarantee deposits	863	764
Subtotal	**2,820,984**	**2,498,657**
(Allowance for doubtful receivables)	(25,540)	(22,622)
(Present value discount)	(11)	(10)
Total	**3,728,152**	**3,302,172**

10. Other non-financial assets

Other non-financial assets as at December 31, 2018 are as follows:

(Units: KRW million, USD thousand)

	FY 2018 (KRW)	FY 2018 (USD)
Reinsurance assets	1,898,115	1,681,236
Compensation receivables	74,719	66,182
Current income tax receivables	32,701	28,965
Prepaid expenses	4,239	3,755
Advance payments	42,488	37,633
Total	**2,052,262**	**1,817,770**

11. Insurance contract liabilities

The Group recognizes insurance contract liabilities in accordance with the IBA and the RIS.
Insurance contract liabilities as at December 31, 2018 are as follows:

(1) Reserve for outstanding claims

(Units: KRW million, USD thousand)

	FY 2018 (KRW)	FY 2018 (USD)
Fire insurance	38,074	33,724
Marine insurance	226,785	200,872
Automobile insurance	147,834	130,942
Surety insurance	19,194	17,001
Engineering insurance	182,767	161,884
Workers' compensation insurance	24,119	21,363
Liability insurance	189,243	167,620
Personal accident insurance	82,488	73,063
Comprehensive insurance	151,317	134,027
Other casualty insurance	231,996	205,488
Overseas inward insurance	1,716,711	1,520,559
Long-term insurance (non-par)	671,770	595,013
Personal annuity	449	398
Total	**3,682,747**	**3,261,955**

(2) Unearned premium reserve

(Units: KRW million, USD thousand)

	FY 2018 (KRW)	FY 2018 (USD)
Fire insurance	57,168	50,636
Marine insurance	82,919	73,445
Automobile insurance	309,890	274,482
Surety insurance	182,442	161,596
Engineering insurance	138,121	122,339
Workers' compensation insurance	7,470	6,616
Liability insurance	126,082	111,676
Personal accident insurance	90,457	80,121
Comprehensive insurance	178,513	158,116
Other casualty insurance	163,754	145,043
Overseas inward insurance	558,943	495,078
Total	**1,895,759**	**1,679,149**

12. Equity

(1) Capital stock

Details of capital stock as at December 31, 2018 are as follows:

	FY 2018 (KRW)	FY 2018 (USD)
Number of common shares authorized (shares)	320,000,000	320,000,000
Par value (KRW, USD)	500	0.4
Number of common shares issued (shares)	120,369,116	120,369,116
Capital stock (KRW million, USD thousand)	60,185	53,308

(2) Capital surplus

Capital surplus consists of the following as at December 31, 2018

(Units: KRW million, USD thousand)

	FY 2018 (KRW)	FY 2018 (USD)
Paid-in capital in excess of par value	103,729	91,877
Other capital reserve	72,646	64,345
Total	**176,375**	**156,222**

(3) Capital adjustments

Capital adjustments consist of the following as at December 31, 2018

(Units: KRW million, USD thousand)

	FY 2018 (KRW)	FY 2018 (USD)
Treasury stock	(35,311)	(31,276)

(4) Accumulated other comprehensive income

Accumulated other comprehensive income consists of the following as at December 31, 2018

(Units: KRW million, USD thousand)

	FY 2018 (KRW)	FY 2018 (USD)
Gain on valuation of available-for-sale financial assets	66,969	59,317
Loss on valuation of held-to-maturity financial assets	(3,301)	(2,924)
Asset revaluation surplus	68,979	61,097
Exchange difference on translating foreign operations	(9,126)	(8,083)
Loss on valuation of derivative instruments designated as cash flow hedges	(656)	(581)
Re-measurement of the net defined benefit liabilities	(985)	(872)
Total	**121,880**	**107,954**

(5) Retained earnings

Retained earnings as at December 31, 2018 are as follows:

(Units: KRW million, USD thousand)

	FY 2018 (KRW)	FY 2018 (USD)
Legal reserve	30,092	26,654
Bad debt reserve	18,712	16,574
Catastrophe reserve	1,123,698	995,304
Business rationalization reserve	2,033	1,801
Voluntary reserve	435,650	385,872
Unappropriated retained earnings	92,015	81,501
Total	**1,702,200**	**1,507,706**

(6) Hybrid equity security

Hybrid equity security as at December 31, 2018 is as follows:

	Description [1]
Date issued	October 21, 2014
Amounts issued	USD 200,000,000
Maturity [2]	30 years, Revolving
Distribution term	4.50% per annum on a face value basis (redetermination of interest rate every 5 years, Step up 100bps once at 10th year)

(1) The maturity of the security becomes due in 30 years, but it could be early repaid in every 5 years in case of execution of issuer's option. Therefore, the Group recorded the security as an equity as it is considered to meet the criteria to be classified as an equity.

(2) The Group can extend the maturity of the security on the same conditions. In addition, the Group would not pay interest if it decides not to pay dividend on the common shares.

Independent Auditor's Report

The Shareholders and Board of Directors
Korean Reinsurance Company

Opinion

We have audited the accompanying consolidated financial statements of Korean Reinsurance Company (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as at December 31, 2018 and 2017, and its financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards (KIFRS).

Basis for opinion

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea (KGAAS). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Assessment of reserve for insurance contract liabilities

As stated in Note 2.3.14 Insurance contract liabilities, events arose as to which the Group was required to make settlement in accordance with the Insurance Industry Supervision Regulations and related legislation, however for contracts where the settlement amount was not confirmed, the Group recognizes a reserve for outstanding claims based on an estimation of the amount expected to be settled.

As stated in Note 18 Insurance contract liabilities, as of the end of the reporting period, the book value of the reserve is KRW 3.7 trillion, representing 43.4% of the total liabilities of KRW 8.5 trillion and 66.1% of the insurance contract liabilities of KRW 5.6 trillion. The reserves are calculated by deducting the recoverable amount that reflects the calculation of the amount estimated to be paid out of the contracts for which the amount of payment has not yet been determined, and the results of the measurement may significantly change according to management's judgment resulting in uncertainties in accounting estimate. Therefore, it was determined that significant attention is required by the auditor and thus the matter was deemed a key audit matter, and decided on the key audit matters.

The main audit procedures that we have conducted related to the considerations described above are as follows:

- Obtain an understanding of the Group's accounting policies applied in calculating the reserves and confirm that the calculation method is in compliance with the insurance supervision regulations and the regulations governing the supervision of the insurance industry.
- Confirm whether basic information such as the methodology and assumptions/input variables is applied in accordance with the supervisory regulations and internal calculation regulations by extracting samples for products with high stock holdings by insurance category.
- Confirm if reserve target contracts have been omitted through performing a comparison of the results of the calculation of the contract information and claims reserve held in the Group's operating system.
- Extract samples from unreported loss amount (IBNR), through performance of recalculation verification and the verification of the calculation logic of the reserve table for the extracted sample.
- Confirm whether the claims reserve total amount of the final reserve closing information is consistent with the settlement information.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with KIFRS, and for such internal control as management determines

Independent Auditor's Report

is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with KGAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with KGAAS we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Keum Cheol, Shin.

Ernst & Young Han Young

March 14, 2019

This audit report is effective as at March 14, 2019, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's report to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

FY 2018

Corporate Information

Organization

- **President & CEO**
  - **Executive Managing Director**
    - Strategic Planning Office
    - General Affairs Team
    - Finance & Actuarial Team
    - Asset Management Team
    - Global Business Team
    - Global Project Team
    - Research & Market Intelligence Team
    - IT Team
    - Risk Management Team
    - Claims & Survey Team
    - Accounting Team
    - Product Development Team
  - **Managing Directors**
    - Property Team 1
    - Property Team 2
    - Engineering Team
    - Marine Team
    - Casualty Team
    - Long-term & Motor Team
    - Life Team
- **Chief Audit Officer**
  - Compliance Team
  - Auditing Team

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Glossary

Combined Ratio
The sum of the expense ratio and the loss ratio.

Earned Premium
The portion of the written premium that is equal to the expired portion of the time during which the insurance or reinsurance was in effect.

Expense Ratio
Expenses (other than loss adjustment expenses) incurred during a specific period of time, divided by premiums written during the same period.

Facultative Reinsurance
A form of reinsurance whereby each exposure the ceding company wishes to reinsure is offered to the reinsurer and is contained in a single transaction. The submission, acceptance, and resulting agreement is required on each individual risk that the ceding company seeks to reinsure. That is, the ceding company negotiates an individual reinsurance agreement for every policy it will reinsure. However, the reinsurer is not obliged to accept every or any submission.

Gross Written Premium
The gross premium income (i.e. written, instead of earned) of an insurance company, adjusted for additional or return premiums but before deducting any premiums for reinsurance ceded.

Incurred But Not Reported (IBNR)
Liability for future payments on losses that have already occurred but have not yet been reported in the reinsurer's records.

Investment Income
Money earned from invested assets. May also include realized capital gains or be reduced by capital losses over the same period.

Loss Ratio
Losses incurred, expressed as a percentage of earned premiums.

Non-Proportional Reinsurance
Reinsurance in which the reinsurer's response to a loss depends on its size. So named because the premium in non-proportional reinsurance is not proportional to the coverage limits.

Original/Direct/Primary Insurer
The insurer that writes a policy for a policyholder (which in turn may or may not create the need for reinsurance).

Proportional Reinsurance
A term describing quota share and surplus share reinsurance, in which the reinsurer shares a proportional part of the ceded insurance liability, premiums, and losses of the ceding company.

Retention
In reinsurance, the net amount of risk the ceding company keeps for its own account.

Risk
Defined variously as uncertainty of loss, chance of loss, or the difference of the actual results from the expected ones. The term is also used to identify the object of insurance protection, e.g., a building, an automobile, a human life, or exposure to liability. In reinsurance, each reinsured company customarily makes its own rules for defining a risk.

Risk-Based Capital (RBC)
The amount of capital needed to absorb the various risks of operating an insurance business. For example, a higher risk business requires more capital than one with lower risks. The calculation is unique to each company.

Shareholders' Equity
The value of a company which is the property of its ordinary shareholders (the company's assets less its liabilities).

Soft Market
One side of the market cycle that is characterized by low rates, high limits, flexible contracts, and high availability of coverage.

Treaty Reinsurance
A form of reinsurance in which the ceding company makes an agreement to cede certain classes of business to a reinsurer. The reinsurer, in turn, agrees to accept all business qualifying under the agreement, known as the "treaty". Under a reinsurance treaty, the ceding company is assured that all of its risks falling within the terms of the treaty will be reinsured in accordance with treaty terms.

Underwriting Income
The excess of premiums earned by a reinsurer during any reporting period over the combined total of expenses and losses incurred during the same period.

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