

FY 2019 FINANCIAL REVIEW

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MANAGEMENT'S DISCUSSION & ANALYSIS

Business Highlights

Sluggishness in the Korean insurance market continued in 2019 due to declining new business volume amid worsening conditions in the slowing Korean economy. The overall market profitability was restrained by deteriorated loss ratios from increased paid claims. The life insurance market remained stagnant due to declined savings and variable products sales despite an increase in protection products, and to make matters worse, paid claims also increased from a rise in surrender and maturity cases, eroding the bottom lines of life insurance companies. Non-life insurers managed to deliver top-line growth driven by intensified competition in long-term product marketing and a hike in motor insurance rates. However, combined factors from increased long-term insurance expenses, aggravated loss ratios in medical reimbursement products, and motor insurance drove down their profitability.

Another key challenge for insurers in Korea is the upcoming implementation of IFRS 17 and a new risk-based capital (RBC) regime called Korean Insurance Capital Standards (K-ICS). To maintain a healthy level of RBC ratios, Korean insurers have sought various ways to reinforce available and required capital positions. Subordinated debts and hybrid debts have been issued to strengthen available capital positions, and even rights issues are being considered as an option. Recently, the Financial Supervisory Commission (FSC) of Korea permitted co-insurance as another solution for easing the burden on required capital, so financial regulators and participants from the industry are now working together to swiftly implement regulatory changes.

Korean Re delivered stronger results in 2019, with gross written premiums increasing by 6.5%, to KRW 8,051.5 billion, and net written premiums growing by 4.0%, to KRW 5,533.0 billion. After-tax net income soared to KRW 188.7 billion, up KRW 85.8 billion from the prior year. As of the end of 2019, our total assets were valued at KRW 11,733.1 billion, up KRW 982.2 billion year on year, and our invested assets climbed to KRW 6,222.2 billion, up KRW 342.6 billion from a year earlier.

In 2019, we saw a greater improvement in underwriting results amid deteriorated loss ratios from natural catastrophes that included typhoons in Japan and in our domestic personal lines of business. The improvement can be attributed to a decline of high-loss events in general insurance and our unwavering stance for disciplined underwriting. At the same time, our investment operations delivered a robust performance in 2019, and produced a higher yield.

In 2020, the overall business is projected to keep growing on the back of a better outcome from profit-focused underwriting and strong yield-generating activities on the investment side.

Analysis of Operating Results

In 2019, Korean Re reported a 6.5% growth in gross written premiums that were worth KRW 8,051.5 billion. Our domestic portfolio grew by 6.1% and our overseas business expanded by 7.7%. In spite of a contraction in motor premiums, continued expansion in government-sponsored crop, livestock, and other insurance—and a rate increase in long-term products—brought about 6.1% growth in our domestic portfolio. The 7.7% growth

MANAGEMENT'S DISCUSSION & ANALYSIS

of our overseas businesses was mainly driven by an expanded volume in the casualty, motor, and life line sectors, all of which are less prone to natural catastrophes.

In line with the rise in gross written premiums, our net written premiums expanded by 4.0%, to KRW 5,533.0 billion, in 2019. The overall retention rate fell slightly, from 70.4% to 68.7%, as we ceded additional portion of premiums from government-sponsored insurance for the purpose of risk management.

Volume of Premiums

(Unit: KRW billion, USD million)

	FY 2019 (KRW)	FY 2019 (USD)	FY 2018 (KRW)	FY 2018 (USD)	YoY Change*
Gross Written Premiums	8,051.5	6,843.5	7,558.5	6,801.5	6.5%
Net Written Premiums	5,532.9	4,702.8	5,317.9	4,785.3	4.0%
Earned Premiums	5,512.5	4,685.4	5,264.8	4,737.5	4.7%
Ceded Premiums	2,518.5	2,140.6	2,240.5	2,016.1	12.4%

* YoY change is based on the value in KRW. The figures are rounded off.

Gross Written Premiums by Line of Business

(Unit: KRW billion, USD million)

	FY 2019 (KRW)	FY 2019 (USD)	FY 2018 (KRW)	FY 2018 (USD)	YoY Change*
Property	1,165.1	990.3	1,183.6	1,065.1	-1.6%
Engineering**	844.8	718.0	617.5	555.7	36.8%
Marine & Aviation	380.4	323.3	517.9	466.0	-26.5%
Casualty	1,181.5	1,004.2	1,073.1	965.6	10.1%
Long-term	2,277.7	1,936.0	2,030.7	1,827.2	12.2%
Motor	679.8	577.7	698.5	628.5	-2.7%
Life	1,392.7	1,183.7	1,329.6	1,196.4	4.5%
Overseas Operations	129.5	110.1	107.5	96.7	20.5%
Total	8,051.5	6,843.5	7,558.5	6,801.5	6.5%

* YoY change is based on the value in KRW. The figures are rounded off.

** Engineering includes nuclear, agriculture, and other specialty lines.

Gross Written Premiums: Domestic vs. Overseas

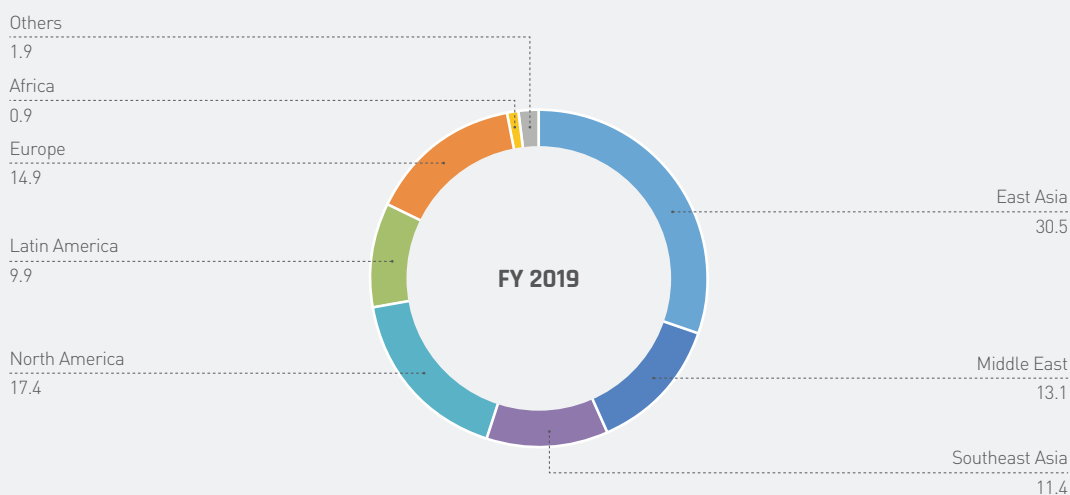
(Unit: KRW billion, USD million)

	FY 2019 (KRW)	FY 2019 (USD)	FY 2018 (KRW)	FY 2018 (USD)	YoY Change*
Domestic	6,041.9	5,135.4	5,691.9	5,121.8	6.1%
Overseas	2,009.6	1,708.1	1,866.6	1,679.7	7.7%

* YoY change is based on the value in KRW. The figures are rounded off.

Overseas Business Portfolio by Region for 2019

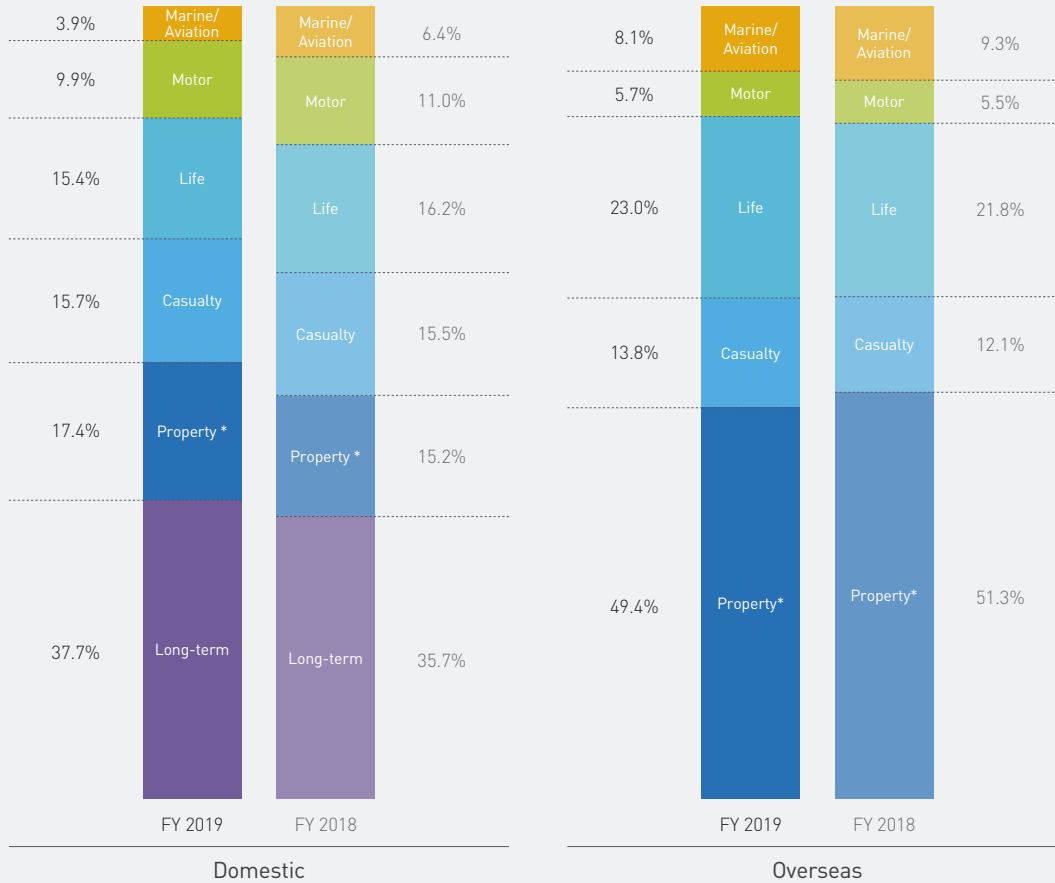
(Unit: %)



Looking at the figures geographically, the American and European markets accounted for 42.2% of the overseas business portfolio, up 2.3%p from 39.9% in 2016. Korean Re has continued to expand into advanced markets. East Asia's share fell by 2.5%p, which was a reflection of last year's adjustment of our China portfolio.

MANAGEMENT'S DISCUSSION & ANALYSIS

Premium Income Portfolio by Line of Business: Domestic vs. Overseas



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

Combined Ratio

The overall combined ratio for 2019 dropped to 100.1%, down 0.5%p from a year earlier. With respect to domestic commercial lines, the combined ratio decreased by 3.2%p, to 93.2%. This was the result of less-frequent, high-loss events in the property sector, and a rise in livestock insurance rates. Domestic personal lines, as affected by increased losses in life, long-term, and motor insurance, experienced a 2.5%p increase in their combined ratio, to 102.0%. The combined ratio for overseas business improved to 99.1%, down 5%p year on year despite losses from high-loss natural events that included typhoons Faxai and Hagibis in Japan. The improvement is attributable to our ability in carving out underperforming accounts from marine & aviation, stricter underwriting, and a high-loss event decline in our engineering business.

Underwriting Results

(Unit: KRW billion, USD million)

	FY 2019 (KRW)	FY 2019 (USD)	FY 2018 (KRW)	FY 2018 (USD)	YoY Change*
Incurring Losses	4,716.2	4,008.6	4,385.4	3,946.2	7.5%
Net Operating Expenses	803.8	683.2	911.9	820.6	-11.9%
Earned Premiums	5,512.5	4,685.4	5,264.8	4,737.5	4.7%
Combined Ratio	100.1%		100.6%		-0.5%p

* YoY change is based on the value in KRW. The figures are rounded off.

Solvency Margin Ratio

	FY 2019	FY 2018	YoY Change
Solvency Margin Ratio	217.8%	211.5%	6.3%p

Our solvency margin, or RBC ratio, rose to 217.8%, up 6.3%p from the prior year. The increase in the ratio is an outcome of our strategic focus on stable growth, and actually improved profitability.

Net Income

Korean Re delivered very positive results in 2019, with a net income of KRW 188.7 billion. Although we posted an underwriting loss of KRW 40.2 billion, our investment income soared to KRW 277.4 billion. When excluding foreign exchange effects, our underwriting loss was KRW 4.2 billion, and net investment income amounted to KRW 235.8 billion, according to the Separate Financial Statements of the Company.

Our underwriting operations reported a loss despite improved numbers from domestic commercial lines and overseas business. Larger losses in long-term reimbursement products and motor insurance policies mainly contributed to a rise in the loss ratio for domestic personal lines.

Our investment operations delivered strong results in 2019 as well. Our net investment income, excluding foreign exchange effects, amounted to KRW 235.8 billion, up KRW 62.4 billion year on year, with an investment yield of 4.0%. The excellent results for the year were realized not just by one-off gains of KRW 26.7 billion from the sale of Koramco REITs & Trust, but also driven by yield improvement attained from portfolio diversification, such as by allocating more assets to loans and alternative investment vehicles. Our Asset Management Team is expected to generate a stable flow of returns on our assets based on a more structurally stable portfolio and more flexible management of bond positions.

MANAGEMENT'S DISCUSSION & ANALYSIS

KOREAN RE'S SHARE PRICE

Throughout 2019, the Korean stock market experienced frequent volatility, part of which was triggered by mounting tensions between the U.S. and China over trade issues amid a negative outlook of the global economy. The Korea Composite Stock Price Index (KOSPI) managed to close the year with a moderate rebound. KOSPI reached its peak on April 16, 2019, climbing to 2,248.63 points. By August 2019, escalating uncertainty over the reignited standoff between the U.S. and China, as well as the export ban imposed by Japan, caused KOSPI to drop below 2,000 points. On August 7, 2019, KOSPI hit its yearly low of 1,909.71. At the end of the year, the index had managed to inch up slightly upon news of a long-awaited initial trade deal between the U.S. and China, and the possible recovery of Korean companies.

The stocks of local insurers in 2019 moved in tandem with KOSPI. They continued rallies during the first quarter, nearing a 10% jump from opening market prices. The overall performance for the year, however, was more bearish than other industries. Rising uncertainty from the upcoming implementation of IFRS 17 and the K-ICS (Korea Insurance Capital Standard), and a negative spread burden due to the ongoing trend of low interest rates, deteriorated losses from motor and medical reimbursement products negatively affected earnings of insurance companies in Korea. As a result, insurance stock prices closed nearly 15% lower than the beginning of the year.

Unlike KOSPI, Korean Re's stock price started the year at KRW 8,560 per share and ended at KRW 9,110 per share, or a 6.4% rise over that period. Up until the end of the first half of the year, Korean Re moved in tandem with a bearish KOSPI. However, from the second half of the year forward, our share prices began gradually increasing, propped up by Korean Re's improved earnings potential and a substantial undervaluation of its stocks. The big jump in share prices came after a series of shareholder-friendly actions were announced in December 2019, including a stock repurchase decision and the company's stance on maintaining a higher dividend payout ratio. Market analysts released an optimistic outlook on our stock price movement. In their view, our profit-oriented underwriting was set to increase the profitability of our overseas businesses and domestic commercial lines, even though motor and medical reimbursement product lines suffered a setback due to an increased loss ratio. Furthermore, market analysts' positive outlook of a stable investment income generation model for Korean Re was based on our firm commitment to strengthening our investment portfolio. To optimize capital efficiency, more assets were allocated to profitable loan and alternative instruments, for instance. The current stock price of Korean Re has remained significantly undervalued, with its PBR standing at 0.44. This is yet another reason to remain optimistic about a future positive forecast.

RISK MANAGEMENT REPORT

Objectives

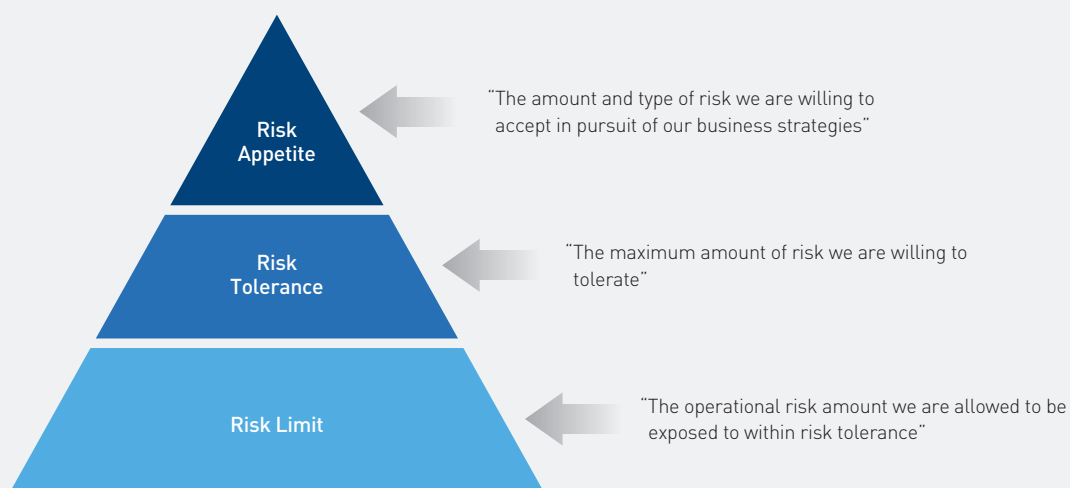
Korean Re implements enterprise risk management initiatives to achieve a stable set of risk management objectives. The objectives are as follows:

- Establishing risk management infrastructure to achieve "Vision 2050"
- Continuously enhancing shareholder value
- Maintaining a high level of credibility with stakeholders, credit rating agencies and supervisory agencies
- Diversifying insurance and investment portfolios, while also enhancing risk management with regard to overseas business growth

Strategic Risk Management

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

Risk Appetite Framework



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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 the company's vision and business objectives. The risk appetite statement is as follows:

- Maintain the solvency ratio within an optimal range (190%-300%)
- Focus on our comparable advantage businesses and achieve an ROE more than 8%
- Maintain conservative risks at a medium-low level considering our capital level
- Improve capital efficiency by optimizing insurance and investment portfolio
- Continue to improve our RAROC (Risk-adjusted return on capital)

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 also 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 helps create 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%)
- Maintain a credit rating of "A" or above
- Annual natural catastrophe loss \leq 15% of available capital
- Ability to fulfill continuous responsibilities (liquidity)

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 our business plans. We also have a detailed capital management plan in place based on the levels of solvency ratio in order to maintain the optimal range of solvency. 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 full compliance with Korean Re's risk appetite and tolerance.

Optimized Portfolio

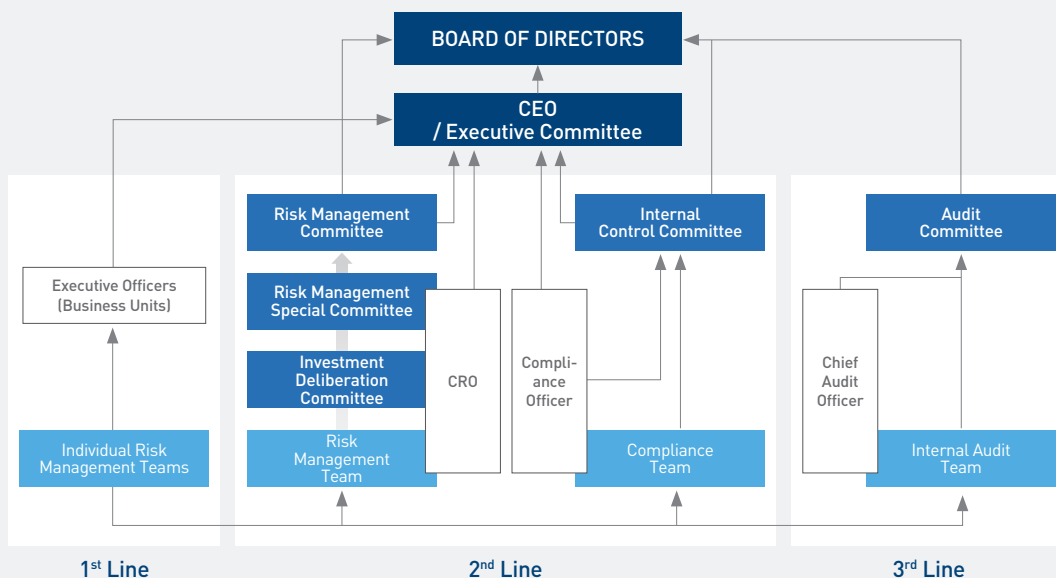
Korean Re performs business planning by analyzing the risks and profitability of its businesses. We measure return on risk-adjusted capital (RORAC) for each line of our insurance businesses and investment asset portfolio through our own internal model. Based on this, the Strategic Planning office draws up plans for optimal portfolios and then finalizes annual plans that can achieve capital efficiency with respect to risk appetite and improve our 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 businesses. Risk governance defines the roles and responsibilities of the board of directors, committees, management structures, and related teams. It also involves the implementation of three lines of defense as part of the structure.

The Three Lines of Defense model that we implement demonstrates our risk governance, laying out 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. (Office staff overseas are also a first line of defense.) Their primary responsibility is to maintain an effective control environment and ensure 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 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



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Key Risks

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

Key Risks		
Insurance Risk	Financial Risk	Liquidity Risk
<ul style="list-style-type: none"> • Premium Risk • Reserve Risk • Nat. Cat. Risk 	Market Risk <ul style="list-style-type: none"> • 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 a 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 risks in a consistent manner across the company by assessing and monitoring them 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 corporate 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, more specifically, hedge against foreign exchange risk using derivatives in order to keep our exposure at a safe level.

At the same time, we closely monitor global economic and financial market conditions and outlooks 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, such as whether to write new business contracts or invest in derivatives. When necessary, these 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 then 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 risks that cover various business units and activities, including strategy, reputation, new product development, and claims management.

We manage these risks through effective policies and procedures that have a clear separation of duties, timely internal control, and reporting systems. Through the internal control system, operational risks are managed systemically based on our Code of Conduct, regulations and ethics.

Emerging Risk

Emerging risk involves new threats, key risks, and/or evolving risks that may adversely affect our business. We identify emerging risks through an internal Think Tank group made up of experts. We establish and implement risk mitigation initiatives and regularly monitor the residual risk with target risk.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2019 and 2018

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)	FY 2018 (KRW)	FY 2018 (USD)
Assets				
I . Cash and cash equivalents	360,117	308,029	175,567	155,507
II . Financial assets:	8,942,817	7,649,317	8,320,168	7,369,504
1. Deposits	224,626	192,136	269,931	239,089
2. Financial assets at fair value through profit or loss	308,956	264,268	383,419	339,609
3. Available-for-sale financial assets	4,124,023	3,527,519	2,374,325	2,103,034
4. Held-to-maturity financial assets	-	-	1,560,885	1,382,538
5. Derivative financial assets designated as hedges	7,186	6,147	3,456	3,061
6. Loans	1,014,286	867,578	932,719	826,146
7. Receivables	3,263,740	2,791,669	2,795,434	2,476,027
III. Investments in associates	5,920	5,064	-	-
IV. Property and equipment	95,000	81,259	77,298	68,466
V . Investment properties	91,886	78,596	110,237	97,641
VI. Intangible assets	15,565	13,314	15,325	13,574
VII. Other non-financial assets	2,221,811	1,900,446	2,052,262	1,817,770
Total assets	11,733,115	10,036,025	10,750,857	9,522,462
Liabilities				
I . Insurance contract liabilities	5,974,644	5,110,464	5,578,506	4,941,104
II . Financial liabilities	2,840,530	2,429,672	2,585,810	2,290,354
III. Other non-financial liabilities	461,926	395,113	348,926	309,058
1. Current income tax liabilities	729	624	157	139
2. Deferred income tax liabilities	379,166	324,323	316,543	280,375
3. Retirement benefit liabilities	16,171	13,832	13,061	11,569
4. Other liabilities	65,860	56,334	19,165	16,975
Total liabilities	9,277,101	7,935,249	8,513,243	7,540,516
Equity				
I . Capital stock	60,185	51,480	60,185	53,308
II . Capital surplus	176,375	150,864	176,375	156,222
III. Hybrid equity security	229,439	196,253	212,286	188,030
IV. Capital adjustments	(60,579)	(51,817)	(35,311)	(31,276)
V . Accumulated other comprehensive income	201,902	172,699	121,880	107,954
VI. Retained earnings	1,848,693	1,581,296	1,702,200	1,507,706
Total shareholders' equity	2,456,015	2,100,775	2,237,614	1,981,945
Total liabilities and shareholders' equity	11,733,116	10,036,024	10,750,857	9,522,462

Note: For the B/S section, Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,169.10 per USD 1 for FY 2019 and KRW 1,129.00 for FY 2018. For the I/S section, the applicable exchange rate was KRW 1,176.52 per USD 1 for FY 2019 and KRW 1,111.30 for FY 2018.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2019 and 2018

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)	FY 2018 (KRW)	FY 2018 (USD)
I . Operating revenue	10,669,921	9,069,052	9,892,498	8,901,735
1. Premium income	8,051,548	6,843,528	7,558,524	6,801,515
2. Reinsurance income	1,863,433	1,583,852	1,695,181	1,525,404
3. Expenses recovered	333,474	283,441	342,885	308,544
4. Interest income	158,493	134,713	148,104	133,271
5. Dividend income	32,061	27,251	17,081	15,370
6. Investment income from financial instruments	79,072	67,208	22,731	20,454
7. Other operating revenues	151,840	129,059	107,993	97,177
II . Operating expenses	10,420,076	8,856,694	9,748,914	8,772,534
1. Reinsurance expenses	2,518,565	2,140,690	2,240,563	2,016,164
2. Insurance claims and benefits expenses	6,322,130	5,373,585	5,766,243	5,188,737
3. Provision for insurance contract liabilities	211,758	179,987	281,391	253,209
4. Operating and administrative expenses	1,127,893	958,669	1,253,245	1,127,729
5. Claim handling expenses	122,676	104,270	106,534	95,864
6. Asset management expenses	4,405	3,744	3,060	2,754
7. Interest expenses	403	343	10	9
8. Investment expenses from financial instruments	56,863	48,332	50,687	45,611
9. Other operating expenses	55,383	47,074	47,182	42,457
III . Operating income	249,845	212,358	143,584	129,201
IV . Non-operating income	656	558	1,004	903
V . Non-operating expense	3,483	2,960	10,154	9,137
VI . Income before income taxes	247,017	209,956	134,434	120,967
VII . Income tax expenses	58,307	49,559	31,490	28,336
VIII . Net income	188,710	160,397	102,944	92,631
IX . Other comprehensive income (loss)	80,022	68,016	15,997	14,395
X . Total comprehensive income	268,732	228,413	118,942	107,026

Note: For the B/S section, Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,169.10 per USD 1 for FY 2019 and KRW 1,129.00 for FY 2018. For the I/S section, the applicable exchange rate was KRW 1,176.52 per USD 1 for FY 2019 and KRW 1,111.30 for FY 2018.

* 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, 2019 and 2018

(Unit: KRW million)

	Capital stock	Capital surplus	Hybrid equity security	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
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
Loss on valuation of available-for-sale financial assets	-	-	-	-	14,003	-	14,003
Loss on valuation of held-to-maturity financial assets	-	-	-	-	346	-	346
Exchange difference on translating foreign operations	-	-	-	-	2,701	-	2,701
Gain on valuation of derivative instruments designated as cash flow hedges	-	-	-	-	(671)	-	(671)
Revaluation surplus	-	-	-	-	(19)	19	-
Gain on remeasurement of the net defined benefit liabilities	-	-	-	-	(362)	-	(362)
Total comprehensive income	-	-	-	-	15,998	102,963	118,961
As at December 31, 2018	60,185	176,375	212,286	(35,311)	121,879	1,702,200	2,237,614
As at January 1, 2019	60,185	176,375	212,286	(35,311)	121,879	1,702,200	2,237,614
Cash dividends	-	-	-	-	-	(31,589)	(31,589)
Hybrid equity security repayment and issuance	-	-	17,153	(23,427)	-	-	(6,274)
Dividends of hybrid equity security	-	-	-	-	-	(10,629)	(10,629)
Treasury stock acquisition	-	-	-	(1,841)	-	-	(1,841)
Net income	-	-	-	-	-	188,710	188,710
Gain on valuation of available-for-sale financial assets	-	-	-	-	69,211	-	69,211
Gain on valuation of held-to-maturity financial assets	-	-	-	-	3,301	-	3,301
Exchange difference on translating foreign operations	-	-	-	-	9,155	-	9,155
Gain on valuation of derivative instruments designated as cash flow hedges	-	-	-	-	(448)	-	(448)
Loss on remeasurement of the net defined benefit liabilities	-	-	-	-	(1,197)	-	(1,197)
Total comprehensive income	-	-	-	-	80,022	188,710	268,732
As at December 31, 2019	60,185	176,375	229,439	(60,579)	201,902	1,848,693	2,456,015

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (USD)

For the years ended December 31, 2019 and 2018

(Unit: USD thousand)

	Capital stock	Capital surplus	Hybrid equity security	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
As at January 1, 2018	51,480	150,864	181,581	(30,204)	90,567	1,405,868	1,850,156
Cash dividends	-	-	-	-	-	(29,477)	(29,477)
Dividends of hybrid equity security	-	-	-	-	-	(8,470)	(8,470)
Net income	-	-	-	-	-	88,054	88,054
Loss on valuation of available-for-sale financial assets	-	-	-	-	11,978	-	11,978
Loss on valuation of held-to-maturity financial assets	-	-	-	-	296	-	296
Exchange difference on translating foreign operations	-	-	-	-	2,310	-	2,310
Loss on valuation of derivative instruments designated as cash flow hedges	-	-	-	-	(574)	-	(574)
Revaluation surplus	-	-	-	-	(16)	16	-
Gain on remeasurement of the net defined benefit liabilities	-	-	-	-	(310)	-	(310)
Total comprehensive income	-	-	-	-	13,684	88,070	101,754
As at December 31, 2018	51,480	150,864	181,581	(30,204)	104,250	1,455,992	1,913,964
As at January 1, 2019	51,480	150,864	181,581	(30,204)	104,250	1,455,992	1,913,964
Cash dividends	-	-	-	-	-	(27,020)	(27,020)
Hybrid equity security repayment and issuance	-	-	14,672	(20,038)	-	-	(5,366)
Dividends of hybrid equity security	-	-	-	-	-	(9,091)	(9,091)
Treasury stock acquisition	-	-	-	(1,575)	-	-	(1,575)
Net income	-	-	-	-	-	161,416	161,416
Gain on valuation of available-for-sale financial assets	-	-	-	-	59,200	-	59,200
Gain on valuation of held-to-maturity financial assets	-	-	-	-	2,824	-	2,824
Exchange difference on translating foreign operations	-	-	-	-	7,831	-	7,831
Loss on valuation of derivative instruments designated as cash flow hedges	-	-	-	-	(383)	-	(383)
Loss on remeasurement of the net defined benefit liabilities	-	-	-	-	(1,023)	-	(1,023)
Total comprehensive income	-	-	-	-	68,449	161,415	229,864
As at December 31, 2019	51,480	150,864	196,253	(51,817)	172,699	1,581,297	2,100,775

Note: Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,169.10 per USD 1.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2019 and 2018

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)	FY 2018 (KRW)	FY 2018 (USD)
I . Cash flows from operating activities	309,662	264,872	309,058	273,745
1. Income before income taxes	247,017	211,288	134,434	119,074
2. Cash generated from operations	(169,110)	(144,650)	100,710	89,203
3. Receipt of interest	186,249	159,310	130,822	115,874
4. Payment of interest	(101)	(86)	(144)	(128)
5. Receipt of dividend	35,983	30,778	17,081	15,129
6. Refund(payment) of income taxes	9,624	8,232	(73,844)	(65,407)
II . Cash flows from investing activities	(59,014)	(50,479)	(219,439)	(194,366)
1. Cash inflows	917,530	784,817	563,263	498,904
2. Cash outflows	(976,544)	(835,296)	(782,702)	(693,270)
III . Cash flows from financing activities	(61,758)	(52,825)	(44,545)	(39,455)
1. Cash inflows	229,937	196,679	18	16
2. Cash outflows	(291,695)	(249,504)	(44,563)	(39,471)
IV . Net increase(decrease) in cash and cash equivalents (I + II +III)	188,890	161,568	45,074	39,924
V . Effects of changes in foreign exchange rates on cash and cash equivalents	(4,341)	(3,713)	1,229	1,089
VI . Cash and cash equivalents at the beginning of the year	175,567	150,173	129,265	114,495
VII . Cash and cash equivalents at the end of year	360,116	308,029	175,567	155,507

Note: For the B/S section, Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,169.10 per USD 1 for FY 2019 and KRW 1,129.00 for FY 2018. For the I/S section, the applicable exchange rate was KRW 1,176.52 per USD 1 for FY 2019 and KRW 1,111.30 for FY 2018.

* 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 financial statements in the Korean language in accordance with Korean 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 auditors' 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 1,169.10 to USD 1, the telegraphic transfer selling rate of exchange as at December 31, 2019. The profit and loss account is translated at KRW 1,176.52 to USD 1, the average exchange rate of the period.

3. Cash and Cash Equivalents

Cash and cash equivalents as at December 31, 2019 are as follows:

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Cash on hand	2	1
Short-term bank deposits	360,115	308,028
Total	360,117	308,029

4. Financial Assets

Carrying value and fair value of financial assets as at December 31, 2019 are as follows:

(Unit: KRW million, USD thousand)

	Carrying value		Fair value	
	(KRW)	(USD)	(KRW)	(USD)
Deposits	224,626	192,136	224,626	192,136
Financial assets at FVTPL	308,956	264,268	308,956	264,268
Available-for-sale financial assets	4,124,023	3,527,519	4,124,023	3,527,519
Held-to-maturity financial assets	-	-	-	-
Derivative financial assets designated as hedges	7,186	6,147	7,186	6,147
Loans	1,014,286	867,578	1,053,474	901,098
Receivables	3,263,740	2,791,669	3,263,716	2,791,648
Total	8,942,817	7,649,317	8,981,981	7,682,817

5. Deposits

Deposits as at December 31, 2019 are as follows:

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Term deposits	33,000	28,227
Overseas deposits	75,145	64,276
Other deposits	116,481	99,633
Total	224,626	192,136

6. Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss as at December 31, 2019 are as follows:

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Stock	-	-
Beneficiary certificates	301,281	257,703
Derivative financial assets held-for-trading	-	-
Securities in foreign currencies	7,675	6,565
Total	308,956	264,268

7. Available-for-Sale Financial Assets

Available-for-sale financial assets as at December 31, 2019 are as follows:

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Stock	36,405	31,139
Equity investment	119,968	102,616
Government and public bonds	625,076	534,664
Special bonds	391,565	334,929
Financial bonds	61,511	52,614
Corporate bonds	751,235	642,575
Beneficiary certificates	611,647	523,178
Securities in foreign currencies	1,525,908	1,305,199
Others	708	605
Total	4,124,023	3,527,519

8. Held-to-Maturity Financial Assets

Held-to-maturity financial assets as at December 31, 2019 are as follows:

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Government and public bonds	-	-
Special bonds	-	-
Corporate bonds	-	-
Securities in foreign currencies	-	-
Total	-	-

* For efficient asset management, the Group reclassified its Held-to-maturity financial assets as Available-for-sale financial assets for the year ended October 31, 2019

9. Loans and Receivables

Loans and receivables as at December 31, 2019 are as follows:

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Loans		
Loans secured by securities	448,629	383,739
Loans secured by real-estate	322,567	275,911
Credit loans	1,017	870
Guaranteed loans	38,283	32,746
Other loans	209,282	179,011
Subtotal	1,019,778	872,277
(Allowance for possible loan losses)	(3,500)	(2,994)
(Present value discount)	(262)	(225)
(Deferred loan fee and costs)	(1,730)	(1,480)
Receivables		
Insurance receivables	3,242,991	2,773,921
Accounts receivables	601	514
Accrued income	52,399	44,820
Guarantee deposits	950	813
Subtotal	3,296,941	2,820,068
(Allowance for doubtful receivables)	(33,182)	(28,383)
(Present value discount)	(19)	(16)
Total	4,278,026	3,659,247

10. Other Non-Financial Assets

Other non-financial assets as at December 31, 2019 are as follows:

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Reinsurance assets	2,077,968	1,777,409
Compensation receivables	98,800	84,510
Current income tax assets	12,054	10,310
Deferred tax assets	173	148
Prepaid expenses	659	564
Advanced payments	23,123	19,778
Right of use assets	9,034	7,727
Total	2,221,811	1,900,446

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, 2019 are as follows:

(1) Reserve for outstanding claims

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Fire insurance	39,205	33,534
Marine insurance	248,332	212,413
Automobile insurance	161,155	137,845
Surety insurance	28,345	24,245
Engineering insurance	186,741	159,731
Workers' compensation insurance	27,183	23,251
Liability insurance	202,582	173,280
Personal accident insurance	78,412	67,070
Comprehensive insurance	144,413	123,525
Other casualty insurance	251,266	214,923
Overseas inward insurance	1,832,452	1,567,405
Long-term insurance	803,902	687,625
Personal annuity	397	340
Total	4,004,385	3,425,187

(2) Unearned premium reserve

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Fire insurance	50,824	43,473
Marine insurance	65,632	56,139
Automobile insurance	303,818	259,873
Surety insurance	243,880	208,605
Engineering insurance	144,206	123,348
Workers' compensation insurance	6,630	5,671
Liability insurance	127,037	108,662
Personal accident insurance	83,286	71,239
Comprehensive insurance	176,129	150,653
Other casualty insurance	182,825	156,381
Overseas inward insurance	585,992	501,233
	1,970,259	1,685,277
Total	5,974,644	5,110,464

12. Equity**(1) Capital stock**

Details of capital stock as at December 31, 2019 are as follows:

	FY 2019 (KRW)	FY 2019 (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 and outstanding (shares)	120,369,116	120,369,116
Capital stock (KRW million, USD thousand)	60,185	51,480

(2) Capital surplus

Capital surplus consists of the following as at December 31, 2019

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Paid-in capital in excess of par value	103,729	88,726
Other capital reserve	72,646	62,138
Total	176,375	150,864

(3) Capital adjustments

Capital adjustments consist of the following as at December 31, 2019

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Treasury stock	(37,152)	(31,778)
Other capital adjustment	(23,427)	(20,038)
Total	(60,579)	(51,817)

(4) Accumulated other comprehensive income

Accumulated other comprehensive income consists of the following as at December 31, 2019

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Gain on valuation of available-for-sale financial assets	136,181	116,484
Loss on valuation of held-to-maturity financial assets	-	-
Asset revaluation surplus	68,979	59,002
Exchange difference on translating foreign operations	29	25
Loss on valuation of derivative instruments designated as cash flow hedges	(1,104)	(944)
Re-measurement of the net defined benefit liabilities	(2,183)	(1,867)
Total	201,902	172,699

(5) Retained earnings

Retained earnings as at December 31, 2019 are as follows:

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Legal reserve	30,092	25,739
Bad debt reserve	19,385	16,581
Catastrophe reserve	1,207,454	1,032,806
Business rationalization reserve	2,033	1,739
Voluntary reserve	412,429	352,775
Unappropriated retained earnings	177,300	151,655
Total	1,848,693	1,581,296

(6) Hybrid equity security

Hybrid equity security as at December 31, 2019 is as follows:

	Description ¹⁾
Date issued	October 21, 2019
Amounts issued	₩ 230,000,000,000
Maturity ²⁾	30 years, Revolving
Distribution term	3.40% per annum on a face value basis (redetermination of interest rate every 5 years, Step up 100bps once at 10th year)

(1) Hybrid equity securities have maturities, but they have capital requirements, such as that the Group's right to continue extending maturities.

(2) 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 and its subsidiaries

Opinion

We have audited the accompanying consolidated financial statements of Korean Reinsurance Company and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, 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 consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and consolidated 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 the reserve for outstanding claims included in insurance contract liabilities

As stated in Note 2.3.14, in accordance with the Insurance Supervision Regulations and other related laws (the Regulations for Supervision), at the end of each financial year, the Group shall set aside a reserve for outstanding claims for amounts that have not yet been paid in relation to amounts that are to be paid or estimated to be paid for contracts that caused the reason for payment, i.e. insurance premiums. The reserve for outstanding claims are calculated by deducting recoverable profits (after applying the reimbursement rate) from amount estimated to be paid from contracts where the reason for the payment occurred but the amount of the insurance payment was not confirmed.

As noted in Note 20 Insurance Contract Liabilities, the carrying amount of the reserve for outstanding claims as of the end of the current financial year is KRW 4.0 trillion, accounting for 67% of the total insurance contract liabilities of KRW 5.97 trillion.

The reserve for outstanding claims was determined to be a key audit matter as the balance is significant in terms of the overall consolidated financial statements. It involves, to an extent, management estimates, is related to other financial statement accounts, and requires the use of an expert to perform the audit of the reserve for outstanding claims.

The primary audit procedures we have performed to address this key audit matter are as follows:

- Recalculated to evaluate whether the reserve for outstanding claims calculation was complete without omission of each category of items that make up the reserve.
- Individual estimates: Assessed if the sum of the individual estimates as notified by the ceded reinsurer corresponds to the sum of the individual estimates for each category at the time of settlement. Selected a sample from the accident notifications and analyzed whether the individual estimated amounts received by the original insurer corresponds to the amounts per the Group's system.
- Unreported damages: Analyzed the calculation method by category to determine if it conforms to the regulatory rules. Grouped amounts into domestic and overseas categories and assessed whether the recalculated amounts correspond to the amounts recognized by the Group.
- Future claim handling expenses: For costs attributable directly to the handling of claims, a sample was selected and verified if the costs corresponded to the amount notified by the ceded reinsurer. Indirectly incurred costs were compared with the ratio of the loss survey recalculated under the supervisory regulations and the percentage applied by the Group.
- Reimbursement rate: Assessed if the (reimbursable amount) recalculated in accordance with the supervisory regulations corresponds to the Group's (reimbursable amount).

- Evaluated the Group's design and operating effectiveness of the internal controls over financial reporting relating to the measurement of the reserve for outstanding claims.

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 has determined as 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, which are made 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 to modify our opinion if such disclosures are inadequate. 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 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 Hanyoung
March 18, 2020

This audit report is effective as of March 18, 2020, 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.