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

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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

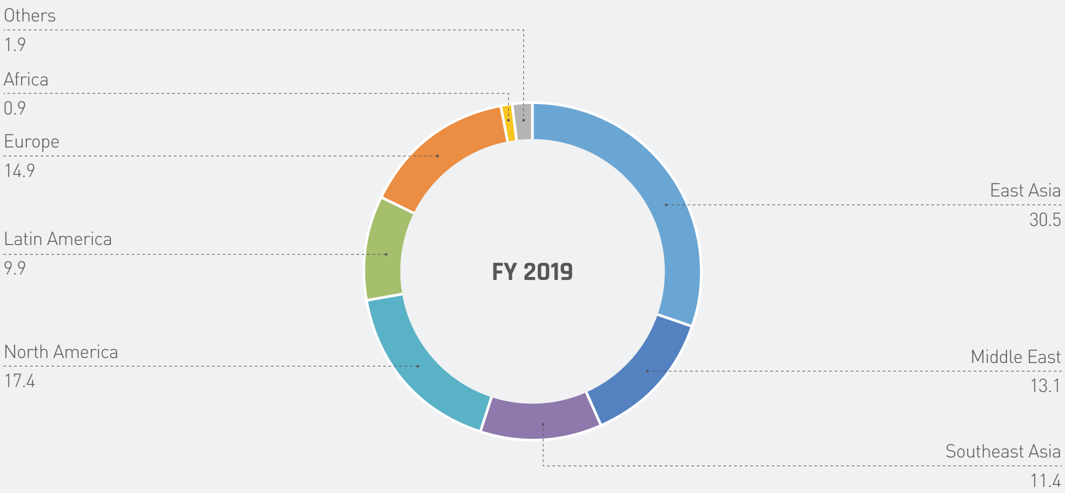
(Unit: KRW billion, USD million)

	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.

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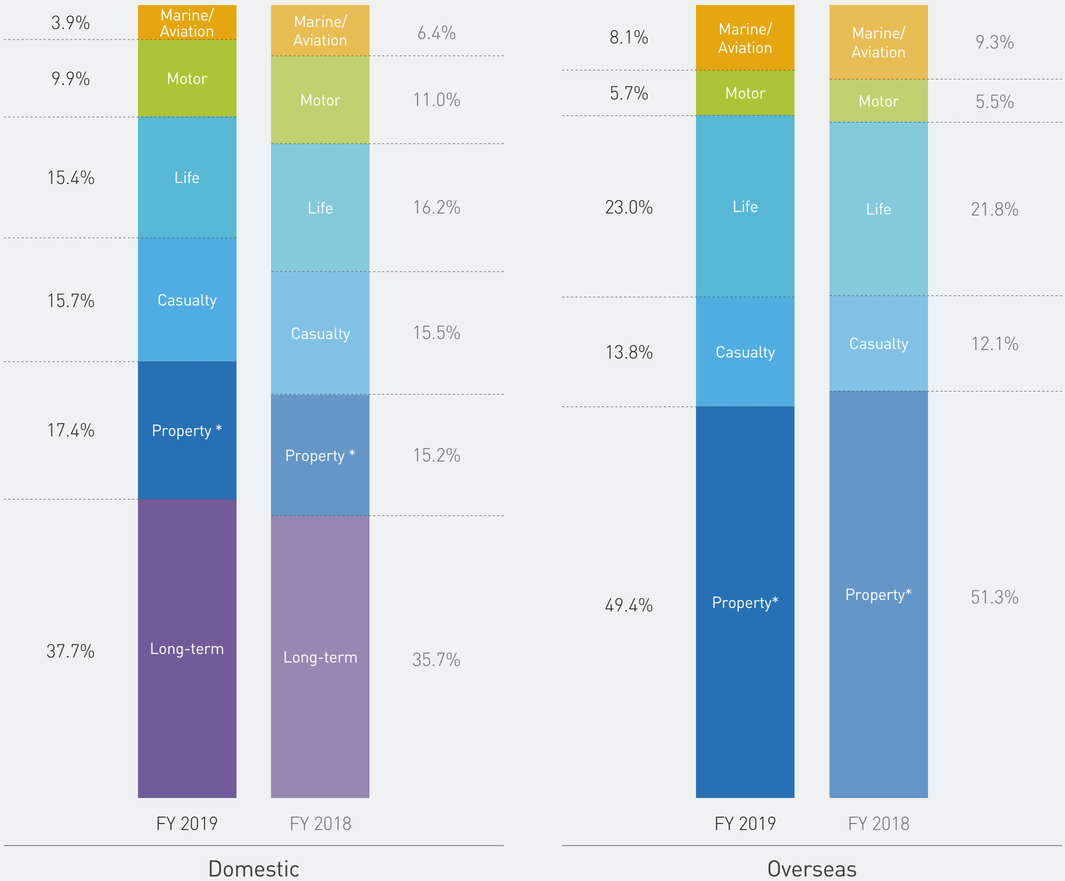
Premium Income Portfolio by Line of Business: Domestic vs. Overseas



* 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*
Incurred 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.

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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 rage (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 ≤ 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

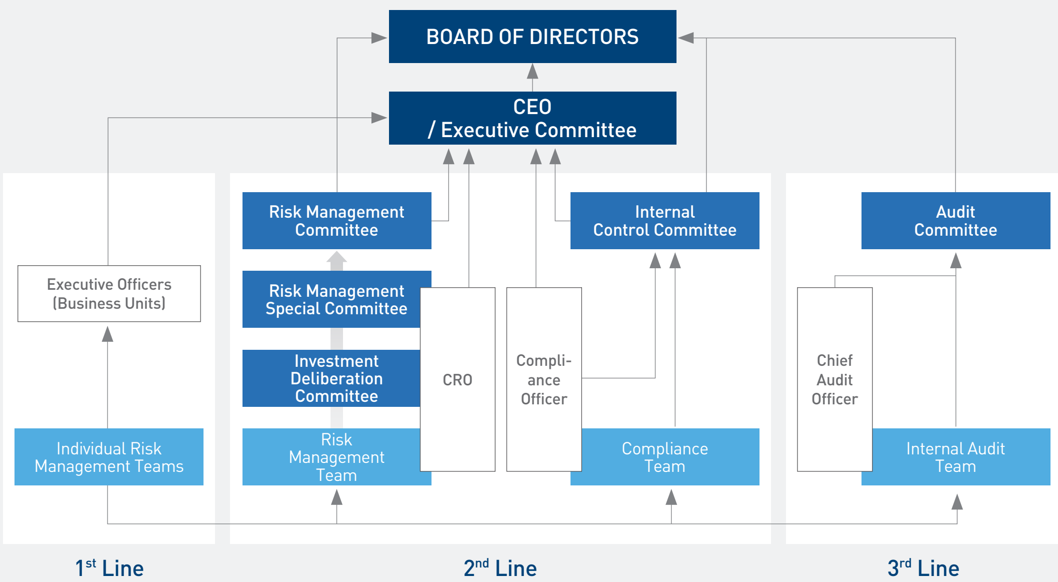
Korean Re performs business planning by analyzing the risks and profitability of its businesses. We measure return on risk-adjusted capital (RORAC) for each line of our insurance businesses and investment asset portfolio through our own internal model. Based on this, the Strategic Planning office draws 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
• 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 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.