

# 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.