FY2017

Financial Review

Management's Discussion & Analysis

Korean Re delivered strong underwriting results for 2017 despite a series of large loss events including hurricanes.

Business Highlights

The domestic insurance market continued to slow down in 2017 amid improving but still weak macroeconomic conditions. The volume of new business fell as the market reached the maturity stage. Increasing household debt also discouraged consumers from buying insurance. Despite this setback in top-line growth, insurers reported a significant improvement in bottom-line growth as their loss ratios declined in the wake of premium rate increases for motor insurance and medical expense insurance. Meanwhile, insurers in Korea have been working to increase their capital as their RBC ratios keep falling. The upcoming implementation of IFRS17 and a new RBC regime called K-ICS would increasingly put pressure on the capitalization of insurance companies.

Korean Re delivered strong underwriting results for 2017 despite a series of large loss events including hurricanes. Our underwriting profit excluding foreign exchange effects surged by 54 percent to KRW 79.4 billion, the second highest ever, on the back of strict underwriting discipline and portfolio readjustment. On the other hand, we posted weaker investment results as we booked impairment losses from our investment in KDB Life's private equity fund that was made back in 2009. As a result, net income for the year decreased by KRW 27 billion to KRW 133 billion, although it remained at a relatively stable level.

We reported a 7.8 percent increase to KRW 7,208.1 billion for 2017 compared to the prior year's 4.7 percent growth. Our net written premiums increased by 6.9 percent to KRW 5,021.8 billion. In terms of total assets, 2017 was a record year for us as we saw our total assets surpass the KRW 10 trillion mark. The value of our total assets grew by KRW 484.2 billion year over year to KRW 10,065.3 billion as of late December 2017. Our invested assets amounted to KRW 5,623.5 billion, up KRW 319 billion year over year.

For 2018, we set a goal of achieving a 4.6 percent growth in gross written premiums and a net income of KRW 200 billion. We expect our top-line growth to be supported by price increases in the U.S. and Europe and the growing business volume from our overseas branches. Net income results are also expected to be boosted by our efforts to build a more profitable book of overseas business and an improvement in investment returns such as interest gains amid rising interest rates.

Premium Income Growth

7.8%

Analysis of Operating Results

Korean Re achieved a strong top-line growth for 2017, with gross written premiums increasing by 7.8 percent to KRW 7,208.1 billion. Our domestic business continued to perform robustly with a 6.5 percent growth, and premiums from our overseas business soared by 12.7 percent - a stronger growth than the previous year's 6.9 percent.

Premiums from domestic personal lines jumped by 9.5 percent year over year due to the effect of a rise in primary long-term insurance rates and increased writings of profitable life business. Domestic commercial lines of business grew by 2 percent, and the main drivers of the growth were the expansion of the mobile phone insurance market and new business covering satellite and offshore wind power risks. Still we had to struggle with a stagnant commercial insurance market and a reduction in reinsurance cession from government-sponsored insurance plans, including crop insurance.

Overseas Premium Income Growth

12.7%

Our overseas business also showed an improvement in growth to 12.7 percent in 2017 from 6.9 percent in 2016, as we increased our international facultative business and focused on profitable business in the developed markets. The growth of our global business was shown in most lines of business except for casualty and marine business, which had underperformed in 2016.

In terms of net written premiums, we reported a solid growth of 6.9 percent in step with the increase in gross written premiums. The overall retention rate dropped slightly from 70.3 percent to 69.7 percent as we increased our retrocession for some of our motor and marine businesses, which recorded high loss ratios.

Premium Volume

(Units: KRW billion, USD million)

	FY2017 (KRW)	FY2017 (USD)	FY2016 (KRW)	FY2016 (USD)	YoY Change
Gross Written Premiums	7,208.1	6,360.8	6,684.5	5,690.7	7.8%
Net Written Premiums	5,021.8	4,431.5	4,697.8	3,999.4	6.9%
Earned Premiums	5,003.5	4,415.4	4,676.8	3,981.5	7.0%
Ceded Premiums	2,186.3	1,929.3	1,986.7	1,691.3	10.0%

Breakdown of Gross Written Premiums

(Units: KRW billion, USD million)

	FY2017 (KRW)	FY2017 (USD)	FY2016 (KRW)	FY2016 (USD)	YoY Change
Property	1,093.6	965.1	1,066.5	907.9	2.5%
Engineering	619.3	546.5	590.8	503.0	4.8%
Marine	573.6	506.2	533.2	453.9	7.6%
Casualty	1,057.8	933.5	998.8	850.3	5.9%
Long-term	1,861.0	1,642.3	1,652.4	1,406.7	12.6%
Motor	682.7	602.5	638.9	543.9	6.9%
Life	1,204.6	1,063.0	1,091.0	928.8	10.4%
Singapore Branch	92.0	81.2	89.7	76.4	2.6%
Korean Re Underwriting Ltd. (KRUL)	23.4	20.7	23.3	19.8	0.4%
Total	7,208.1	6,360.8	6,684.5	5,690.8	7.8%

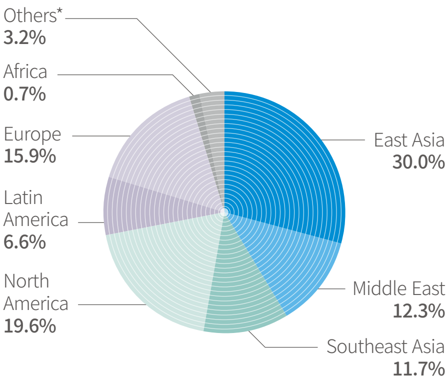
* YoY Change is based on figures in KRW.
** Engineering includes nuclear, agriculture and other specialty lines.
*** Individual figures may not add up to the total shown due to rounding.

Gross Written Premiums: Domestic vs Overseas

(Units: KRW billion, USD million)

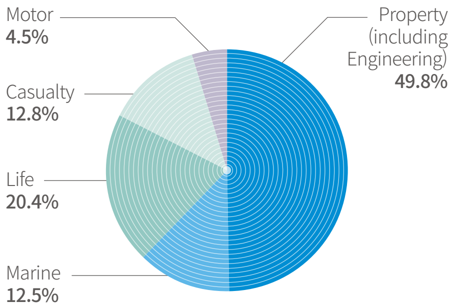
	FY2017 (KRW)	FY2017 (USD)	FY2016 (KRW)	FY2016 (USD)	YoY Change
Domestic	5,544.5	4,892.8	5,208.3	4,434.0	6.5%
Overseas	1,663.6	1,468.1	1,476.2	1,256.7	12.7%

Overseas Business Portfolio by Region



* Retrocession & multi-territory accounts

Overseas Business Portfolio by Line of Business



Our strategy to build a geographically balanced overseas business portfolio continued to pay off in 2017. East Asia accounted for 30 percent of our overseas business portfolio, down from 31.5 percent in 2016. The portions of Latin America and Europe increased by 3.3 percentage points and 1.1 percentage points respectively to 6.6 percent and 15.9 percent. By country, the U.S. and China are our two major markets. The U.S. took up the largest share of 19.2 percent, followed by China at 19.1 percent.

Combined Ratio

98.4%

Combined Ratio

Our combined ratio improved to 98.4 percent in 2017 from 98.8 percent in 2016. Domestic commercial lines posted a particularly robust combined ratio of 90.9 percent compared to the previous year's 93.1 percent, while the ratio for personal lines business was down marginally to 99.6 percent. The combined ratio for overseas business fell slightly to 100.3 percent in spite of unusually large natural catastrophes such as Hurricanes Harvey, Irma and Maria (HIM). Our retained losses were relatively limited thanks to solid protection from retrocession programs. Our strategy to reduce participation in underperforming treaties also helped improve the combined ratio. Excluding the U.S. hurricanes, our overseas business recorded a combined ratio of 96.5 percent in 2017.

In the overseas market, Korean Re increased its business in profitable markets and reduced participation in poorly performing treaties such as U.S. liability and Chinese property in order to improve overall profitability.

Underwriting Results

(Units: KRW billion, USD million)

	FY2017 (KRW)	FY2017 (USD)	FY2016 (KRW)	FY2016 (USD)	YoY Change
Incurred Losses	3,999.0	3,528.9	3,819.1	3,251.3	4.7%
Net Operating Expenses	925.8	817.0	821.9	699.7	12.6%
Earned Premiums	5,003.5	4,415.4	4,676.8	3,981.5	7.0%
Combined Ratio	98.4%		98.8%		- 0.4%p

Solvency Margin Ratio

	FY 2017	FY 2016	YoY Change
Solvency Margin Ratio	221.1%	222.2%	- 1.1%p

We reported a solvency margin ratio of 221.1 percent in 2017, although it was down 1.1 percentage points from a year earlier. This drop in the ratio, also known as the RBC ratio, was attributable to a growth in risk exposures and a reduction in mark-to-market gains on available for sale securities following interest rate hikes.

Net Income

We managed to deliver robust business results for 2017 with a net income of KRW 133 billion, although it was down from the previous year. Net underwriting income sharply increased to KRW 170.1 billion, while net investment income fell to KRW 25.4 billion. When excluding foreign exchange effects, our net underwriting income was KRW 79.4 billion, the second-highest in our history, whereas net investment income amounted to KRW 132.9 billion, according to the Separate Financial Statements.

A strong Korean won had a negative impact on the company's bottom-line for 2017. Large natural catastrophe events eroded our after-tax net income by KRW 48.6 billion. We sustained KRW 47.6 billion in losses from HIM and KRW 16.5 billion in losses from Typhoon Hato in Hong Kong.

On the investment operation side, we posted weaker investment results in 2017 as we booked impairment losses from our investment in KDB Life's private equity fund that was made back in 2009. When excluding gains and losses from foreign exchange hedging for insurance liabilities, our net investment income amounted to KRW 132.9 billion, with an investment return of 2.5 percent. As we are working to build a more diversified investment portfolio, we expect our investment yield to improve next year, helped particularly by interest gains amid rising interest rates.

Korean Re's Share Price

The domestic stock market surged amid price hikes of large-cap stocks and strong net buying position of foreign investors. The market capitalization of the Korea Composite Stock Price Index (KOSPI) hit a record high of KRW 1,664 trillion. KOSPI went through the roof to a record close of 2,467.49p on the last day of trading in 2017, up 21.8 percent from a year before.

The closing price of the first trading day of the year marked a yearly low of 2,026.16p, and the stock market continued to fly high on the back of solid fundamentals of local businesses including cyclical stocks, which are sensitive to economic ups and downs. In particular, pharmaceuticals, electric and electronic companies and securities brokerage firms showed a substantial improvement in their business results. The North Korea risk emerged in August and September, sending the stock market fall instantly but only to a limited extent. The market soon rallied and set a yearly high of 2,557.97p at the close of trading on November 3. Afterwards, the market weakened slightly on the Bank of Korea's decision to raise its benchmark interest rate in late November.

Korean Re's stock relatively underperformed in 2017 with the year-end closing price down 3.5 percent to KRW 11,000. It recorded a yearly high of KRW 13,500 on August 2. This weak stock performance was attributable to two factors: declines in some of our business indicators such as net income and ROE; and strong long positions by investors toward large-cap stocks.

Most stock market analysts present an optimistic prospect for our stock performance going forward in spite of weakening valuation in the past year. They agree that Korean Re's stock is substantially undervalued and has the potential for a notable turnaround. As of year-end, the price-to-book ratio remained at 0.58. In 2018, we expect our stock to gain some strength, with improving underwriting and investment results backed by renewal price hikes and increasing interest rates. Another factor behind the positive outlook is the launch of the KRX 300 Index where Korean Re was incorporated. This may help increase investment flows into mid and lower cap stocks, helping to boost our stock valuation going forward.

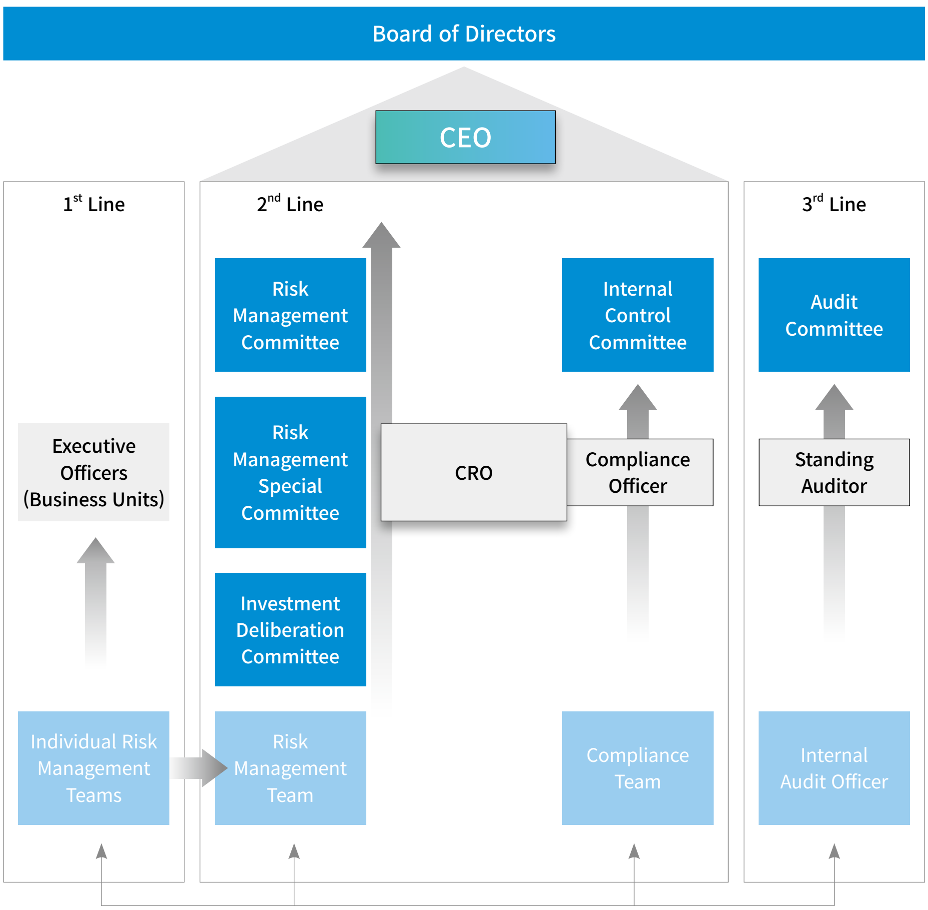
Risk Management Report

Objectives

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

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

Three Lines of Defense



Risk Governance

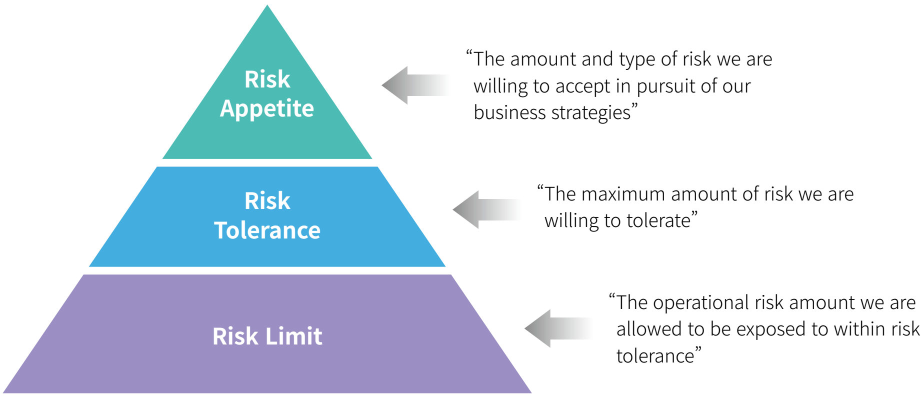
Korean Re has built a comprehensive framework for risk governance based on central oversight and controls of risks with clear accountability. This structure supports risk-based decision-making and oversight across all operations of our business. Risk governance defines the roles and responsibilities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

A 'Three Lines of Defense model' that we implement demonstrates our risk governance, specifying the roles of business and oversight organizations in managing our risk profile. The first line of defense includes front-line managers and staff who are responsible for day-to-day risk management and decision-making (global office managers and staff are also the first line of defense). They have primary responsibility for maintaining an effective control environment and ensuring that all activities are within our risk appetite. The second line of defense deals with setting risk policies and overseeing our risk management status. It 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.

Strategic Risk Management

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

Risk Appetite Framework



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

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

- Focus on the business in which we have comparable advantage and achieve an ROE of more than 9 percent
- Retain risks at a medium-low level considering capital level
- Maintain the solvency ratio within an optimal range (200 - 250 percent)
- Improve capital efficiency by optimizing insurance and investment portfolios; and
- Maintain credit ratings of 'A' or above

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

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

- Maintain the solvency ratio within a stable range (above 170 percent)
- Continuously improve Risk Adjusted Return on Capital(RAROC)
- Annual Nat. Cat. loss ≤ 15 percent of available capital
- Ability to fulfill continuous responsibilities (liquidity)
  - Keeping the liquidity ratio over 100 percent under a stressed scenario

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

Capital Planning

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 to the business plans.

Korean Re's capital management framework is comprised of three main modules including 'capital planning,' 'business planning,' and 'risk planning'. Each module is structured to ensure compliance with Korean Re's risk appetite and tolerance.

Optimized Portfolio

Korean Re establishes annual plans for the insurance business by analyzing risk and profitability of each line of business. Each underwriting team analyzes the attractiveness of their business through various market analysis and forecasts growth and profitability of each line of business. Based on this, the Strategic Planning Team draws up plans for optimal insurance portfolios and then finalizes annual plans that can achieve capital efficiency under risk appetite and maximize profitability after going through a comprehensive analysis of profitability and risk.

Key Risks

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

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

<table>
<tr><th colspan="3">Key Risks</th></tr>
<tr><th>Insurance Risk</th><th>Financial Risk</th><th rowspan="2">Liquidity Risk</th></tr>
<tr><td rowspan="2">• Premium Risk
• Reserve Risk
• Nat. Cat. Risk</td><td rowspan="2">Market Risk
• Interest Rate Risk
• Equity Risk
• Exchange Rate Risk
Credit Risk</td></tr>
<tr><th>Operational Risk</th></tr>
<tr><th colspan="3">Other Key Risks</th></tr>
<tr><th>Strategic Risk</th><th>Reputational Risk</th><th>Emerging Risk</th></tr>
</table>

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 enterprise level.

Market Risk

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

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

Credit Risk

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

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

Liquidity Risk

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

Operational Risk

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

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

Furthermore, we control key risks through the Top Risk Assessment. The Top Risk Assessment is a framework to identify, assess, manage, mitigate and monitor material risks. The company defines the risks that are likely to have a significant impact on the financial results or operational viability.

Other Risks

Strategic Risk

Strategic risk arises from the inability to implement appropriate business plans and strategies, make decisions, allocate resources or adapt to changes in the business environment including changes in economic conditions and competitive landscape.

Korean Re formulates an overall strategy for risk profile and capital allocation, complies with and implements its business strategies as devised, and monitors them vigilantly.

Reputational Risk

We define reputational risk as the risk of an event negatively affecting the stakeholders' perceptions of the company. When there is a gap between stakeholders' expectation and the company's practices, reputation is at risk. Events that could cause reputational risk are as follows:

External Events	Internal Events
• Market conditions • Industry and regulatory environment • Natural or man-made catastrophes • Negative publicity • Change in customers' behavior	• Inadequate or failed internal controls and processes • Compliance issues • Ethical issues

And the risk of these events are incorporated and managed with our operational risk management framework.

Emerging Risk

Emerging risk represents the risk that may develop or that already exists and keeps evolving. Korean Re incorporates emerging risks information, wherever available, into its business decisions in order to protect key stakeholders. We control emerging risks through the Top Risk Assessment

Consolidated Statements of Financial Position

As at December 31, 2017 and 2016

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)	FY 2016 (KRW)	FY 2016 (USD)
Assets				
Ⅰ. Cash and cash equivalents	129,265	119,491	193,597	158,647
Ⅱ. Financial assets	7,842,970	7,249,927	7,353,730	6,026,166
1. Deposits	298,731	276,143	423,856	347,338
2. Financial assets at fair value through profit or loss	697,258	644,535	1,044,527	855,959
3. Available-for-sale financial assets	2,444,769	2,259,908	3,039,718	2,490,960
4. Held-to-maturity financial assets	1,199,720	1,109,004	218,296	178,887
5. Derivative financial assets designated as hedges	27,698	25,604	-	-
6. Loans	668,009	617,498	224,001	183,562
7. Receivables	2,506,785	2,317,235	2,403,332	1,969,460
Ⅲ. Property and equipment	79,440	73,433	81,112	66,469
Ⅳ. Investment properties	110,080	101,756	110,638	90,664
Ⅴ. Intangible assets	18,033	16,669	23,341	19,127
Ⅵ. Other non-financial assets	1,885,521	1,742,948	1,818,709	1,490,379
Total assets	**10,065,308**	**9,304,224**	**9,581,127**	**7,851,452**
Liabilities				
Ⅰ. Insurance contract liabilities	5,157,756	4,767,754	4,964,058	4,067,900
Ⅱ. Financial liabilities	2,388,892	2,208,257	2,156,516	1,767,202
Ⅲ. Other non-financial liabilities	355,643	328,752	348,967	285,967
1. Current income tax liabilities	41,148	38,037	5	4
2. Deferred income tax liabilities	280,995	259,748	303,489	248,700
3. Retirement benefit liabilities	11,243	10,393	13,975	11,452
4. Other liabilities	22,257	20,574	31,498	25,811
Total liabilities	**7,902,292**	**7,304,763**	**7,469,541**	**6,121,069**
Equity				
Ⅰ. Capital stock	60,185	55,634	60,185	49,320
Ⅱ. Capital surplus	176,375	163,038	176,375	144,534
Ⅲ. Hybrid equity security	212,286	196,234	212,286	173,962
Ⅳ. Capital adjustments	(35,311)	(32,641)	(35,311)	(28,936)
Ⅴ. Accumulated other comprehensive income	105,882	97,876	139,845	114,599
Ⅵ. Retained earnings	1,643,600	1,519,320	1,558,206	1,276,904
Total shareholders' equity	**2,163,017**	**1,999,461**	**2,111,586**	**1,730,383**
Total liabilities and shareholders' equity	**10,065,308**	**9,304,224**	**9,581,127**	**7,851,452**

Note: For the B/S section, Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,081.80 per USD 1 for FY 2017 and KRW 1,220.30 for FY 2016. For the I/S section, the applicable exchange rate was KRW 1,133.20 per USD 1 for FY 2017 and KRW 1,174.63 for FY 2016.

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)	FY 2016 (KRW)	FY 2016 (USD)
Ⅰ. Operating revenue	**9,116,763**	**8,045,147**	**8,559,732**	**7,287,172**
1. Premium income	7,208,079	6,360,818	6,684,538	5,690,760
2. Reinsurance income	1,309,763	1,155,809	1,265,547	1,077,401
3. Expenses recovered	335,531	296,092	307,527	261,808
4. Interest income	122,394	108,007	95,586	81,375
5. Dividend income	16,093	14,201	27,127	23,094
6. Investment income from financial instruments	73,987	65,290	63,178	53,785
7. Other operating revenues	50,915	44,930	116,229	98,949
Ⅱ. Operating expenses	**8,941,116**	**7,890,148**	**8,352,484**	**7,110,736**
1. Reinsurance expenses	2,186,328	1,929,340	1,986,692	1,691,334
2. Insurance claims and benefits expenses	5,036,675	4,444,648	4,716,351	4,015,180
3. Provision for insurance contract liabilities	111,053	97,999	300,265	255,625
4. Operating and administrative expenses	1,263,667	1,115,131	1,130,856	962,734
5. Claim handling expenses	95,197	84,007	93,443	79,551
6. Asset management expenses	2,791	2,463	3,174	2,702
7. Interest expenses	6	5	53	45
8. Investment expenses from financial instruments	58,806	51,894	52,117	44,369
9. Other operating expenses	186,594	164,661	69,533	59,196
Ⅲ. Operating income	**175,646**	**154,999**	**207,248**	**176,436**
Ⅳ. Non-operating income	**242**	**214**	**2,859**	**2,434**
Ⅴ. Non-operating expense	**2,440**	**2,153**	**1,836**	**1,563**
Ⅵ. Income before income taxes	**173,449**	**153,060**	**208,271**	**177,307**
Ⅶ. Income tax expenses	**40,440**	**35,687**	**48,222**	**41,053**
Ⅷ. Net income	**133,008**	**117,373**	**160,049**	**136,254**
Ⅸ. Other comprehensive income	**(33,963)**	**(29,971)**	**(14,793)**	**(12,594)**
Ⅹ. Total comprehensive income	**99,045**	**87,402**	**145,256**	**123,660**

Note: For the B/S section, Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,081.80 per USD 1 for FY 2017 and KRW 1,220.30 for FY 2016. For the I/S section, the applicable exchange rate was KRW 1,133.20 per USD 1 for FY 2017 and KRW 1,174.63 for FY 2016.

* 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, 2017 and 2016

(Unit: KRW million)

	Capital stock	Capital surplus	Hybrid equity security	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
As at January 1, 2016	**60,185**	**176,375**	**212,286**	**(35,311)**	**154,638**	**1,448,584**	**2,016,757**
Cash dividends	-	-	-	-	-	(40,204)	(40,204)
Dividends of hybrid equity security	-	-	-	-	-	(10,223)	(10,223)
Net income	-	-	-	-	-	160,049	160,049
Loss on valuation of available-for-sale financial assets	-	-	-	-	(13,884)	-	(13,884)
Exchange difference on translating foreign operations	-	-	-	-	382	-	382
Loss on valuation of derivative instruments designated as cash flow hedges	-	-	-	-	(2,322)	-	(2,322)
Gain on remeasurement of the net defined benefit liabilities	-	-	-	-	1,031	-	1,031
Total comprehensive income	**-**	**-**	**-**	**-**	**(14,793)**	**160,049**	**145,256**
As at December 31, 2016	**60,185**	**176,375**	**212,286**	**(35,311)**	**139,845**	**1,558,206**	**2,111,586**
As at January 1, 2017	**60,185**	**176,375**	**212,286**	**(35,311)**	**139,845**	**1,558,206**	**2,111,586**
Cash dividends	-	-	-	-	-	(37,332)	(37,332)
Dividends of hybrid equity security	-	-	-	-	-	(10,282)	(10,282)
Net income	-	-	-	-	-	133,008	133,008
Loss on valuation of available-for-sale financial assets	-	-	-	-	(27,395)	-	(27,395)
Loss on valuation of held-to-maturity financial assets	-	-	-	-	(3,647)	-	(3,647)
Exchange difference on translating foreign operations	-	-	-	-	(8,536)	-	(8,536)
Gain on valuation of derivative instruments designated as cash flow hedges	-	-	-	-	2,337	-	2,337
Gain on remeasurement of the net defined benefit liabilities	-	-	-	-	3,278	-	3,278
Total comprehensive income	**-**	**-**	**-**	**-**	**(33,963)**	**133,008**	**99,045**
As at December 31, 2017	**60,185**	**176,375**	**212,286**	**(35,311)**	**105,882**	**1,643,600**	**2,163,017**

Consolidated Statements of Changes in Equity (USD)

For the years ended December 31, 2017 and 2016

(Unit: USD thousand)

	Capital stock	Capital surplus	Hybrid equity security	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
As at January 1, 2016	**55,634**	**163,038**	**196,234**	**(32,641)**	**142,945**	**1,339,050**	**1,864,260**
Cash dividends	-	-	-	-	-	(37,164)	(37,164)
Dividends of hybrid equity security	-	-	-	-	-	(9,450)	(9,450)
Net income	-	-	-	-	-	147,947	147,947
Loss on valuation of available-for-sale financial assets	-	-	-	-	(12,834)	-	(12,834)
Exchange difference on translating foreign operations	-	-	-	-	353	-	353
Loss on valuation of derivative instruments designated as cash flow hedges	-	-	-	-	(2,146)	-	(2,146)
Gain on remeasurement of the net defined benefit liabilities	-	-	-	-	953	-	953
Total comprehensive income	**-**	**-**	**-**	**-**	**(13,674)**	**147,947**	**134,273**
As at December 31, 2016	**55,634**	**163,038**	**196,234**	**(32,641)**	**129,271**	**1,440,383**	**1,951,919**
As at January 1, 2017	**55,634**	**163,038**	**196,234**	**(32,641)**	**129,271**	**1,440,383**	**1,951,919**
Cash dividends	-	-	-	-	-	(34,509)	(34,509)
Dividends of hybrid equity security	-	-	-	-	-	(9,505)	(9,505)
Net income	-	-	-	-	-	122,951	122,951
Loss on valuation of available-for-sale financial assets	-	-	-	-	(25,324)	-	(25,324)
Loss on valuation of held-to-maturity financial assets	-	-	-	-	(3,371)	-	(3,371)
Exchange difference on translating foreign operations	-	-	-	-	(7,891)	-	(7,891)
Gain on valuation of derivative instruments designated as cash flow hedges	-	-	-	-	2,160	-	2,160
Gain on remeasurement of the net defined benefit liabilities	-	-	-	-	3,031	-	3,031
Total comprehensive income	**-**	**-**	**-**	**-**	**(31,395)**	**122,951**	**91,556**
As at December 31, 2017	**55,634**	**163,038**	**196,234**	**(32,641)**	**97,876**	**1,519,320**	**1,999,461**

Note: Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,081.80 per USD 1.

Consolidated Statements of Cash flows

For the years ended December 31, 2017 and 2016

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)	FY 2016 (KRW)	FY 2016 (USD)
Ⅰ. Cash flows from operating activities	**559,592**	**517,279**	**417,093**	**341,795**
1. Income before income taxes	173,449	160,334	208,271	170,672
2. Cash generated from operations	279,928	258,761	129,708	106,292
3. Receipt of interest	99,911	92,356	102,773	84,219
4. Payment of interest	(272)	(251)	(438)	(359)
5. Receipt of dividend	16,093	14,876	27,127	22,230
6. Refund(payment) of income taxes	(9,517)	(8,797)	(50,348)	(41,259)
Ⅱ. Cash flows from investing activities	**(578,986)**	**(535,206)**	**(369,235)**	**(302,577)**
1. Cash inflows	288,402	266,595	938,973	769,461
2. Cash outflows	(867,388)	(801,801)	(1,308,208)	(1,072,038)
Ⅲ. Cash flows from financing activities	**(47,527)**	**(43,934)**	**(50,440)**	**(41,334)**
1. Cash inflows	141	130	238	195
2. Cash outflows	(47,668)	(44,064)	(50,678)	(41,529)
Ⅳ. Net increase(decrease) in cash and cash equivalents (Ⅰ+Ⅱ+Ⅲ)	**(66,921)**	**(61,861)**	**(2,582)**	**(2,116)**
Ⅴ. Effects of changes in foreign exchange rates on cash and cash equivalents	**2,588**	**2,393**	**(82)**	**(67)**
Ⅵ. Cash and cash equivalents at the beginning of the year	**193,597**	**178,959**	**196,261**	**160,830**
Ⅶ. Cash and cash equivalents at the end of year	**129,265**	**119,491**	**193,597**	**158,647**

Note: For the B/S section, Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,081.80 per USD 1 for FY 2017 and KRW 1,220.30 for FY 2016. For the I/S section, the applicable exchange rate was KRW 1,133.20 per USD 1 for FY 2017 and KRW 1,174.63 for FY 2016.

*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 Korea International Financial Reporting Standards ("K-IFRS") enacted by the Act on External Audit of Stock Companies. The accompanying consolidated financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the 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.

For the convenience of the reader, the consolidated financial statements have been condensed, restructured, and translated from Korean to English.

The Group has changed the classification of some accounts in the prior year financial statements to be consistent with that in the current year financial statements for the purpose of 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 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 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 1,081.80 to USD 1, the telegraphic transfer selling rate of exchange as at December 31, 2017. The profit and loss account is translated at KRW 1,133.20 to USD 1, the average exchange rate of the period.

3. Cash and cash equivalents

Cash and cash equivalents as at December 31, 2017 are as follows:

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Cash on hand	2	2
Short-term bank deposits	129,263	119,489
Total	**129,265**	**119,491**

4. Financial assets

Carrying value and fair value of financial assets as at December 31, 2017 are as follows:

(Units: KRW million, USD thousand)

	Carrying value		Fair value	
	KRW	USD	KRW	USD
Deposits	298,731	276,143	298,731	276,143
Financial assets at FVTPL	697,258	644,535	697,258	644,535
Available-for-sale financial assets	2,444,769	2,259,908	2,444,769	2,259,908
Held-to-maturity financial assets	1,199,720	1,109,004	1,216,921	1,124,904
Derivative financial assets designated as hedges	27,698	25,604	27,698	25,604
Loans	668,009	617,498	684,654	632,884
Receivables	2,506,785	2,317,235	2,506,676	2,317,134
Total	**7,842,970**	**7,249,927**	**7,876,707**	**7,281,112**

5. Deposits

Deposits as at December 31, 2017 are as follows:

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Term deposits	60,500	55,925
Overseas deposits	99,880	92,328
Other deposits	138,351	127,890
Total	**298,731**	**276,143**

6. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss as at December 31, 2017 are as follows:

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Stock	24,667	22,802
Beneficiary certificates	666,221	615,845
Securities in foreign currencies	6,370	5,888
Total	**697,258**	**644,535**

7. Available-for-sale financial assets

Available-for-sale financial assets as at December 31, 2017 are as follows:

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Stock	56,946	52,640
Equity investment	112,905	104,368
Government and public bonds	10,036	9,277
Special bonds	640,268	591,854
Corporate bonds	836,948	773,662
Beneficiary certificates	140,967	130,308
Securities in foreign currencies	642,284	593,718
Others	4,415	4,081
Total	**2,444,769**	**2,259,908**

8. Held-to-maturity financial assets

Held-to-maturity financial assets as at December 31, 2017 are as follows:

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Government and public bonds	530,327	490,226
Special bonds	19,942	18,434
Securities in foreign currencies	649,451	600,344
Total	**1,199,720**	**1,109,004**

9. Loans and receivables

Loans and receivables as at December 31, 2017 are as follows:

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Loans		
Loans secured by securities	230,000	212,609
Loans secured by real-estate	321,714	297,388
Credit loans	763	705
Guaranteed loans	79,124	73,141
Other loans	42,934	39,687
Subtotal	**674,535**	**623,530**
(Allowance for possible loan losses)	(3,565)	(3,295)
(Present value discount)	(445)	(411)
(Deferred loan fee and costs)	(2,516)	(2,326)
Receivables		
Insurance receivables	2,484,994	2,297,092
Accounts receivables	399	369
Accrued income	41,951	38,779
Guarantee deposits	732	677
Subtotal	**2,528,076**	**2,336,917**
(Allowance for doubtful receivables)	(21,285)	(19,676)
(Present value discount)	(6)	(6)
Total	**3,174,794**	**2,934,733**

10. Other non-financial assets

Other non-financial assets as at December 31, 2017 are as follows:

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Reinsurance assets	1,768,110	1,634,415
Compensation receivables	65,168	60,240
Deferred income tax assets	303	280
Prepaid expenses	5,927	5,479
Advance payments	46,013	42,534
Total	**1,885,521**	**1,742,948**

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, 2017 are as follows:

(1) Reserve for outstanding claims

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Fire insurance	34,082	31,505
Marine insurance	339,049	313,412
Automobile insurance	146,451	135,377
Surety insurance	15,080	13,940
Engineering insurance	171,443	158,479
Workers' compensation insurance	26,290	24,302
Liability insurance	177,525	164,101
Personal accident insurance	87,948	81,298
Comprehensive insurance	114,685	106,013
Other casualty insurance	206,832	191,192
Overseas inward insurance	1,381,185	1,276,748
Long-term insurance	615,513	568,971
Personal annuity	1,028	950
Total	**3,317,111**	**3,066,288**

(2) Unearned premium reserve

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Fire insurance	80,454	74,370
Marine insurance	88,572	81,875
Automobile insurance	302,551	279,674
Surety insurance	129,173	119,406
Engineering insurance	150,426	139,052
Workers' compensation insurance	8,520	7,876
Liability insurance	133,821	123,702
Personal accident insurance	102,888	95,108
Comprehensive insurance	182,288	168,504
Other casualty insurance	151,104	139,678
Overseas inward insurance	510,848	472,221
Total	**1,840,645**	**1,701,466**

12. Equity

(1) Capital stock

Details of capital stock as at December 31, 2017 are as follows:

	FY 2017	FY 2017
Number of common shares authorized (shares)	320,000,000	320,000,000
Par value (KRW, USD)	500	0.5
Number of common shares issued and outstanding (shares)	120,369,116	120,369,116
Capital stock (KRW million, USD thousand)	60,185	55,634

(2) Capital surplus

Capital surplus consists of the following as at December 31, 2017 :

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Paid-in capital in excess of par value	103,729	95,886
Other capital reserve	72,646	67,152
Total	176,375	163,038

(3) Capital adjustments

Capital adjustments consist of the following as at December 31, 2017 :

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Treasury stock	(35,311)	(32,641)

(4) Accumulated other comprehensive income

Accumulated other comprehensive income consists of the following as at December 31, 2017 :

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Gain on valuation of available-for-sale financial assets	52,966	48,961
Loss on valuation of held-to-maturity financial assets	(3,647)	(3,371)
Asset revaluation surplus	68,998	63,781
Exchange difference on translating foreign operations	(11,827)	(10,933)
Gain on valuation of derivative instruments designated as cash flow hedges	15	14
Re-measurement of the net defined benefit liabilities	(623)	(576)
Total	**105,882**	**97,876**

(5) Retained earnings

Retained earnings as at December 31, 2017 are as follows:

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Legal reserve	30,092	27,817
Bad debt reserve	19,082	17,639
Catastrophe reserve	1,003,843	927,938
Business rationalization reserve	2,033	1,879
Voluntary reserve	467,339	432,001
Unappropriated retained earnings	121,211	112,046
Total	**1,643,600**	**1,519,320**

(6) Hybrid equity security

Hybrid equity security as at December 31, 2017 is as follows:

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

(1) The maturity of the security becomes due in 30 years, but it could be early repaid in every 5 years in case of execution of issuer's option. Therefore, the Group recorded the security as an equity as it is considered to meet the criteria to be classified as an equity.
(2) The Group can extend the maturity of the security on the same conditions. In addition, the Group would not pay interest if it decides not to pay dividend on the common shares.

Independent Auditors' Report

The Shareholders and Board of Directors
Korean Reinsurance Company

We have audited the accompanying consolidated financial statements of Korean Reinsurance Company (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, 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 a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group and its subsidiaries as at December 31, 2017 and 2016, and its financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

March 15, 2018
Ernst & Young Hanyoung

Ernst & Young Han Young

This audit report is effective as at March 15, 2018, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors' 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.