

# Financial Review

FY 2020

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# Management's Discussion & Analysis

## Overview of Business Environment

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The Korean insurance market has been forced to grapple with slowing growth over the past few years. In 2020, insurance companies came under further pressure due to a decrease in new business volume and economic downturn in the aftermath of the COVID-19 outbreak. Despite this downward pressure on growth, they showed an improvement in profitability following excessively high claims experience in the previous year. Their underwriting losses in motor and long-term lines of business narrowed amid reduced claims activity - some unexpected benefits in the pandemic situation.

Life insurers suffered a decline in interest income due to low interest rates, but their underwriting losses were reduced on the back of reserve releases from the variable life business and improved business results for medical expense insurance. Similarly, non-life insurers saw their interest income shrink, but there was some improvement in underwriting performance of motor and health lines of business.

Solvency capital management has remained one of the biggest challenges for the insurance industry in Korea with the implementation of IFRS 17 scheduled for 2023 along with a new risk-based capital (RBC) regime called the Korean Insurance Capital

Standards (K-ICS). Insurers have been exploring various options in terms of both capital requirements and available capital positions to boost their RBC ratios. For example, some of them have been working to strengthen their available capital resources by issuing subordinated debts and hybrid capital securities. Others have been seeking to raise new capital through rights offerings.

Coinsurance has emerged as a viable solution for insurers who want to improve their capital strength since it was legally permitted by Korean financial authorities in 2020. Insurers are now allowed to use coinsurance to cover interest rate risk as well as pure underwriting risk, which is basically covered by traditional reinsurance, in order to seek capital relief. Life insurers, in particular, can rely on coinsurance arrangements with reinsurers to alleviate reverse margins in an ultralow interest rate environment and ease capital burden in the run-up to the implementation of tightened accounting and solvency regulations.

## Highlights of Business Results

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Given the extraordinary circumstances, we are proud that Korean Re delivered relatively encouraging results in 2020, with gross written premiums increasing by 4.9% to KRW 8,447.1 billion and net written premiums growing by 6.6% to KRW 5,900.1 billion.

We also reported decent net income results of KRW 142.1 billion after tax, albeit below the strongest level achieved in the previous year (KRW 188.7 billion). Our underwriting performance returned to profitability mostly due to favorable foreign exchange movements, with an underwriting income of KRW 10.2 billion. If losses related to COVID-19 were excluded, underwriting income would have risen to KRW 65 billion, with net income soaring to KRW 183 billion. Our investment

performance remained stable, generating an investment profit of KRW 198.2 billion backed by gains on the sale of bonds.

As of the end of 2020, our total assets increased by KRW 786.8 billion to KRW 12,519.9 billion, while there was a rise of KRW 215.9 billion in invested assets, which totaled KRW 6,438.1 billion. We maintained our capital position at a stable level, with total shareholders' equity standing at KRW 2,455.9 billion as of late December 2020.

## Analysis of Business Results

### Premium Growth

Korean Re wrote gross premiums of KRW 8,447.1 billion in 2020, achieving a 4.9% increase from the prior year. Our domestic business stayed on track to stable growth, with premiums rising by 2.7% to KRW 6,202.5 billion. There was also strong growth impetus from our overseas business, which grew by 11.7%. In line with this expansion in gross written premiums, our net written premiums increased by 6.6% to KRW 5,900.1 billion in 2020. As we continued to raise our retention of profitable business, the overall retention rate went up slightly to 69.8% from 68.7%.

Our domestic portfolio remained strong thanks to our rigorous portfolio management, which restricted the growth of loss-making personal lines of business and crop insurance business. We reported an 11.2% growth in our domestic property business and a 25% increase in our engineering business. The strengthening of our

domestic portfolio was also supported by an improvement in marine and aviation premium growth. In addition, our domestic casualty business delivered stable growth on the back of professional liability and specialty risks.

In overseas markets, we made impressive progress with premiums growing by 11.7%. The main driver of growth was non-property lines of business that are less impacted by natural catastrophes, such as casualty, motor and life. In particular, our overseas life and health business showed a 17.5% increase in gross written premiums, backed by strong growth in the Americas. As for property insurance, we saw our international facultative business grow by 13.7% as a result of the strategic initiative to grow our book of business in less developed territories. Solid business growth at our overseas offices also contributed to the company's global business expansion.

### Volume of Premiums

(Units: KRW billion, USD million)

	FY 2020(KRW)	FY 2020(USD)	FY 2019(KRW)	FY 2019(USD)	YoY Change*
Gross Written Premiums	8,447.1	7,087.8	8,051.5	6,843.5	4.9%
Net Written Premiums	5,900.1	4,950.7	5,533.0	4,702.9	6.6%
Earned Premiums	5,834.0	4,895.2	5,512.5	4,685.4	5.8%
Ceded Premiums	2,547.0	2,137.1	2,518.6	2,140.7	1.1%

\* YoY change is based on the value in KRW.

### Gross Written Premiums by Line of Business

(Units: KRW billion, USD million)

	FY 2020(KRW)	FY 2020(USD)	FY 2019(KRW)	FY 2019(USD)	YoY Change*
Property	1,188.9	997.6	1,165.1	990.3	2.0%
Engineering**	797.4	669.1	844.8	718.0	-5.6%
Marine and Aviation	418.6	351.2	380.4	323.3	10.0%
Casualty	1,331.7	1,117.4	1,181.5	1,004.3	12.7%
Long-term	2,408.0	2,020.5	2,277.7	1,936.0	5.7%
Motor	605.4	508.0	679.8	577.8	-10.9%
Life and Health	1,466.2	1,230.3	1,392.7	1,183.7	5.3%
Overseas Operations***	231.0	193.8	129.5	110.1	78.4%
<b>Total</b>	<b>8,447.1</b>	<b>7,087.8</b>	<b>8,051.5</b>	<b>6,843.5</b>	<b>4.9%</b>

\* YoY change is based on the value in KRW. Individual figures may not add up to the total shown due to rounding.

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

\*\*\* Overseas operations include KRUL, KRSA and branches in Singapore, Labuan, Dubai, and Shanghai.

# Management's Discussion & Analysis

## Gross Written Premiums: Domestic vs. Overseas

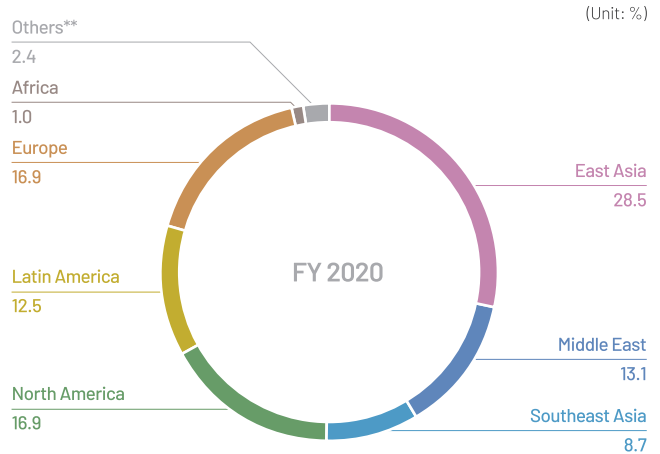
(Units: KRW billion, USD million)

	FY 2020 (KRW)	FY 2020 (USD)	FY 2019 (KRW)	FY 2019 (USD)	YoY Change*
Domestic	6,202.5	5,204.4	6,041.9	5,135.4	2.7%
Overseas	2,244.5	1,883.3	2,009.6	1,708.1	11.7%

\* YoY change is based on the value in KRW.

Korean Re continued to grow its global business portfolio in 2020, diversifying into overseas markets other than Asia. A geographical breakdown of our gross written premiums shows that the American and European markets accounted for 46.3% of the entire overseas business portfolio in 2020 compared to 42.1% in 2017. The shares of Asia declined by 4.7%p as a result of our portfolio management intended to improve overall business results.

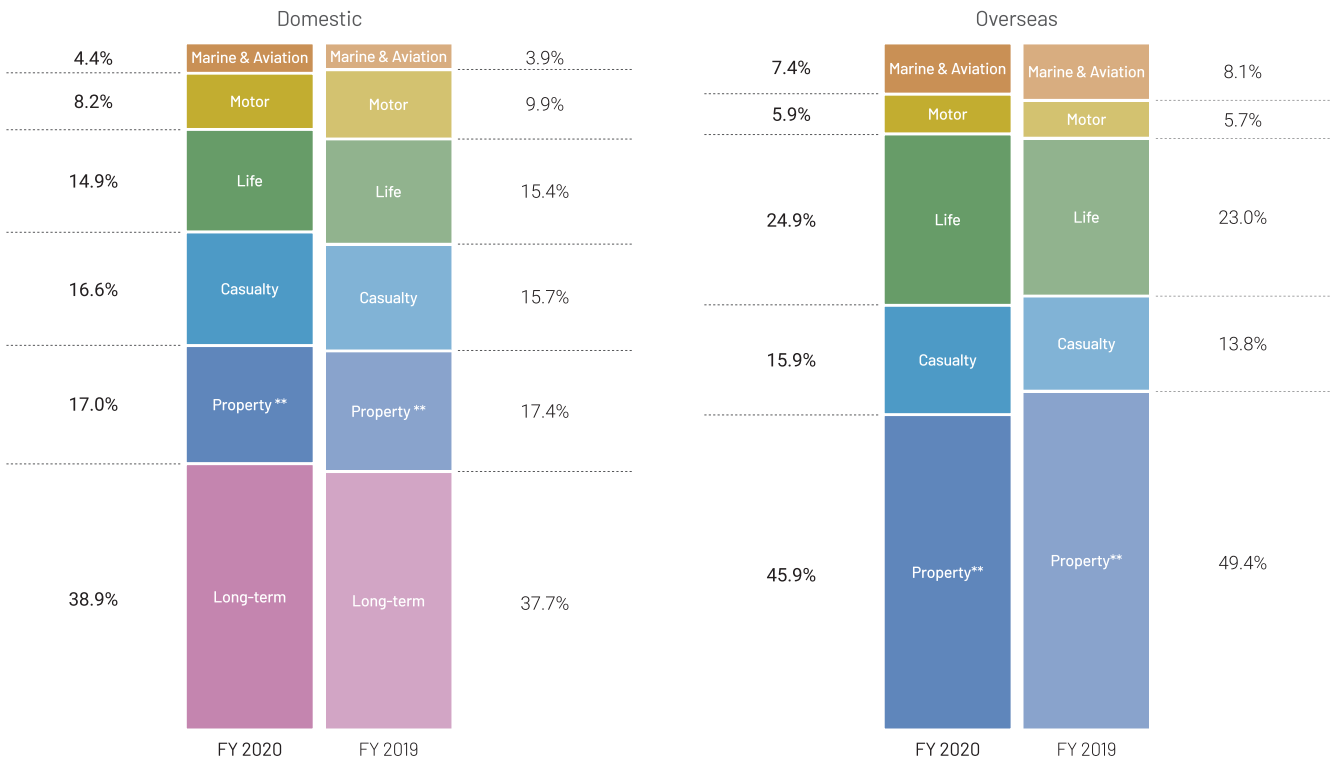
### Overseas Business Portfolio by Region\*



\* Based on the Separate Financial Statements of Korean Re

\*\* Others include retrocession and multi-territory accounts.

### Premium Income Portfolios by Line of Business: Domestic vs. Overseas\*



\* Based on the Separate Financial Statements of Korean Re

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

## Underwriting Performance

Our underwriting profitability remained under pressure in 2020, but we managed to achieve an underwriting income of KRW 10.2 billion thanks in large part to foreign currency effects. When the effects of foreign exchange movements were excluded, our underwriting operations turned a loss, resulting in a combined ratio of 100.6% in 2020, up 0.5%p from 2019.

The primary factor that drove up the ratio was domestic commercial lines, which suffered a series of large losses arising from factory fires and ship sinking coupled with losses from natural disasters including torrential rain and typhoons. This heavy loss experience pushed up the combined ratio for domestic commercial lines by 8.0%p to 101.6%.

Domestic personal lines of business reported slightly improved underwriting results, with a combined ratio of 101.1% compared to 101.9% in the prior year. We experienced a reduced loss ratio amid depressed claims activity in the wake of the pandemic outbreak.

There was also an improvement of 0.8%p in the combined ratio for our overseas business even in the face of the negative impact of COVID-19 on the bottom line of our overseas business. The combined ratio for our overseas business improved to 99.1% despite COVID-19 related losses of KRW 54.8 billion. Our proactive portfolio steering toward higher profitability, together with stricter underwriting discipline and a decrease in natural catastrophe losses, allowed the combined ratio to stay below 100%. When the losses from COVID-19 were excluded, the combined ratio for our overseas business would have fallen to 96.1%, down 3.8%p from the previous year.

As we are set to strictly maintain underwriting discipline, our underwriting results are expected to improve in the coming years against the backdrop of favorable price movements across most lines of business.

## Underwriting Results\*

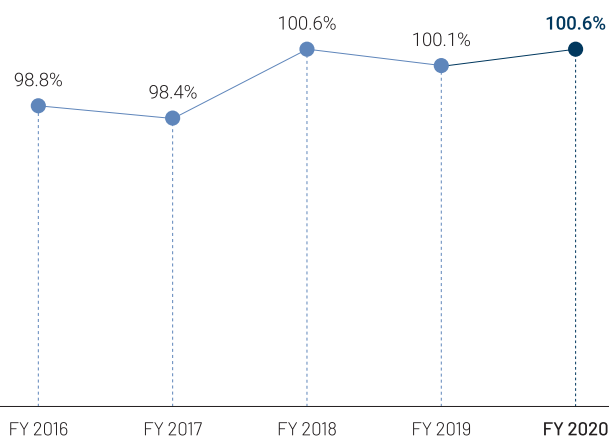
(Units: KRW billion, USD million)

	FY 2020 (KRW)	FY 2020 (USD)	FY 2019 (KRW)	FY 2019 (USD)	YoY Change**
Incurring Losses	5,000.5	4,195.8	4,716.2	4,008.6	6.0%
Net Operating Expenses	867.3	727.7	803.8	683.2	7.9%
Earned Premiums	5,834.0	4,895.2	5,512.5	4,685.4	5.8%
Combined Ratio***	100.6%		100.1%		0.5%p

\* Underwriting results exclude foreign exchange effects.

\*\* YoY change is based on the value in KRW.

\*\*\* The combined ratio is calculated as follows: Combined ratio = (incurred losses + net operating expenses)/earned premiums



## Combined Ratio (FY 2016 - 2020)

\* Excluding foreign currency evaluation effects

# Management's Discussion & Analysis

## Investment Performance

The weak underwriting performance was softened by our stable investment operations. Backed by gains on the sale of bonds, we achieved strong investment results of KRW 198.2 billion. When gains and/or losses from foreign exchange hedging for insurance liabilities are excluded, our investment profit jumped to KRW 236.7 billion with a return of 3.8% according to the Separate Financial Statements of the company. Our solid bond investment operations supported the overall investment performance, demonstrating our effort to ensure the stability of our investment portfolio and maximize the profitability of our invested assets.

Looking ahead to 2021, we will seek increased flexibility and greater diversification in terms of portfolio management so as to improve our return/risk profile. As we continue to build a strong alternative investment portfolio geared toward stable returns, our investment operations will remain well-positioned to deliver solid investment results and enhance our financial strength to enable our business growth.

## Investment Income\*\*

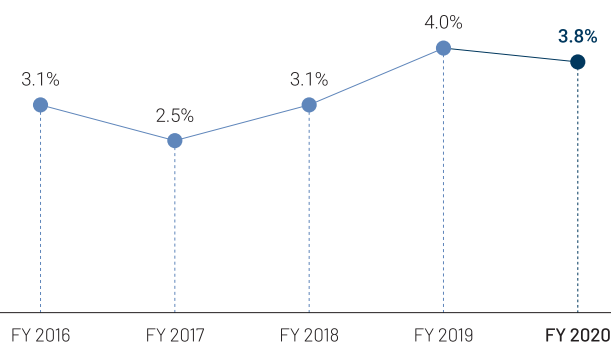
(Units: KRW billion, USD million)

	FY 2020(KRW)	FY 2020(USD)	FY 2019(KRW)	FY 2019(USD)
Domestic Bonds	70.4	59.1	51.0	43.4
Foreign Bonds	57.4	48.2	118.0	100.3
Foreign Bonds*	93.7	78.6	78.2	66.5
Stocks	5.0	4.2	29.2	24.8
Alternative Investments (including loans)	60.4	50.7	70.1	59.6
Short-term Funds	9.4	7.9	8.8	7.5
Others	-2.2	-1.9	-1.5	-1.3
<b>Total</b>	<b>200.4</b>	<b>168.2</b>	<b>275.6</b>	<b>234.3</b>
<b>Total*</b>	<b>236.7</b>	<b>198.6</b>	<b>235.8</b>	<b>200.4</b>

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

\*\* Investment results are based on the Separate Financial Statements of Korean Re, reflecting investment operation at the head office only. Individual figures may not add up to the total shown due to rounding.

## Investment Yield (FY2016 - 2020)



\* Based on the Separate Financial Statements of Korean Re (Gains and/or losses from foreign exchange hedging for insurance liabilities have been excluded.)

## Capital Strength

Korean Re always aims to optimize its capital structure and hold sufficient capital in excess of solvency requirements, generating a high solvency margin ratio (RBC ratio). In 2020, we continued to maintain a healthy RBC ratio of 201.6%, although it was down 16.2%p from the previous year. The decrease mostly reflected a reduction in capital following a series of share buybacks, as well as a drop in net income driven by weak underwriting results.

After the successful issuance of hybrid securities in 2014, Korean Re's capitalization took a significant step forward. It has enabled us to maintain a high level of RBC ratio and to further strengthen our

balance sheet. Utilizing the buffer on the capital, we have been able to increase the retention levels of profitable domestic risks.

Korean Re completed its redemption of the hybrid capital securities issued in 2014, which was successfully refinanced in the Korean capital market in 2019. We are aiming to increase our capital mainly through organic growth in the long term, but additional issuance of hybrid capital securities can be considered on a flexible basis to maintain the current stable capital level with a sound RBC ratio.

### Solvency Margin Ratio

	FY 2020	FY 2019	YoY Change
Solvency Margin Ratio (RBC Ratio)	201.6%	217.8%	-16.2%p

## Dividend and Stock Price Performance

### Distributions to Shareholders

Korean Re has a long history of returning value to shareholders based on its consistent dividend policy to offer attractive and sustainable returns to shareholders. Its total dividend payout amounted to KRW

46 billion in 2020. The payout ratio slightly increased to 32.4% in 2020, with a dividend yield of 5.2%.

### Dividend Performance

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Total Dividend Amount (KRW billion)	37.3	34.5	31.6	57.4	46.0
Payout Ratio (%)	23.3	25.9	30.7	30.4	32.4
Dividend per Share (KRW)	325	300	275	500	450
Dividend Yield (%)	2.8	2.7	3.1	5.3	5.2

As part of our shareholder return policy, we implemented large-scale share buybacks in 2020. Our robust financial strength and cash balances enabled us to invest in our own business with the aim of increasing shareholder value. The share repurchases reflected not

only the confidence that we have in our business and future cash flow generation, but also our ongoing commitment to raising the investment value of our stock.

# Management's Discussion & Analysis

## Korean Re Share Buybacks in 2020

	Dec 2019	Dec 2019- Feb 2020	Feb - Apr 2020	Apr - May 2020	June - July 2020	Aug- Sep 2020
Number of Shares Purchased (million)	-	2.5	5.0	2.0	1.5	1.6
Number of Shares Held in Treasury (million)	5.5	8.0	13.0	15.0	16.5	18.1
Portion of Treasury Shares(%)	4.6	6.6	10.8	12.5	13.7	15.0

A series of share buyback transactions were made from December 2019 to September 2020, with a total of 12.6 million shares being repurchased for KRW 98.7 billion. The volume was worth around 4% of the company's capital and surplus as of the end of 2019. As a result, treasury shares accounted for 15% of the total shares as of late 2020, sharply up from 4.6% in December 2019.

## Stock Price Performance

The COVID-19 pandemic turned 2020 into a year of unprecedented events for the Korean stock market, which went from trough to peak in a very short span of time and then recorded several new highs. At the beginning of the year, the market started off the way it was expected to, and then things began to fall apart abruptly as the coronavirus spread in February, with panic triggered by economic uncertainty leading to a market crash. The Korea Composite Stock Price Index (KOSPI) hit a yearly low of 1,457.64 points on March 19, sending shock waves through the market, which was gripped by the fear of another financial crisis emerging.

However, the market began to rebound surprisingly fast as many governments around the world swiftly made fiscal and monetary responses to the pandemic, providing enough liquidity in the money markets. Rising expectations of vaccine development and economic recovery continued to provide momentum for stock market rallies throughout the latter half of the year. KOSPI closed the year at another high of 2,873.47p on December 30.

KOSPI Insurance also went through extreme swings in the wake of the pandemic outbreak, but lagged the overall market. The weak performance of insurance stocks reflected investor mania for growth and tech stocks amid the trend of digitalization accelerated by the pandemic. At the end of 2020, KOSPI Insurance closed 7.6% lower than a year earlier.

Like other insurance stocks, Korean Re stocks also remained largely underpriced throughout 2020, with the year-end closing price going down to KRW 7,890 compared to KRW 9,110 at the end of 2019. A big

jump in stock price came after Korean Re announced its commitment to shareholder-friendly policies, including share buybacks and a high dividend payout ratio in December 2019, but the COVID-19 outbreak caused the stock price to plunge. After some recovery, it mostly tracked the performance of KOSPI Insurance.

Heading into 2021, Korean Re is confident that its stocks will gain value on the back of market hardening and improved underwriting performance. Market analysts have also released an optimistic outlook on our stock performance, supporting the view that Korean Re stocks are undervalued with a PBR of 0.39 as of the end of 2020. Our robust investment operations based on a diversified portfolio are expected to put our business on a solid footing to generate stable investment income. Moreover, potential interest hikes will lead to higher reinvestment yields, boosting overall investment returns.

Another factor that bolsters the optimistic view is that coinsurance, which was newly introduced in 2020, may create a new source of growth for Korean Re because insurers may want to seek coinsurance arrangements as a means to boost their capital strength. In this respect, Korean Re is working closely with The Carlyle Group to develop coinsurance solutions that best meet the needs of primary insurers in the domestic market.



## Risk Management Report

Korean Re seeks a comprehensive approach to managing current and emerging risks to maintain the resilience of its business. Throughout 2020, we kept a close eye on changes in the global risk landscape and their implications on our business, clients and business partners. In response to COVID-19, our Risk Management Team thoroughly reviewed our exposures through a pandemic risk assessment and worked tirelessly to make sure that our risk control and response measures reflect the exposures.

Our risk management framework upholds an efficient and effective risk management environment to support the achievement of the company's business goals and strategies. The framework sets out how Korean Re defines, manages, monitors and reports risks based on risk governance.

### Objectives

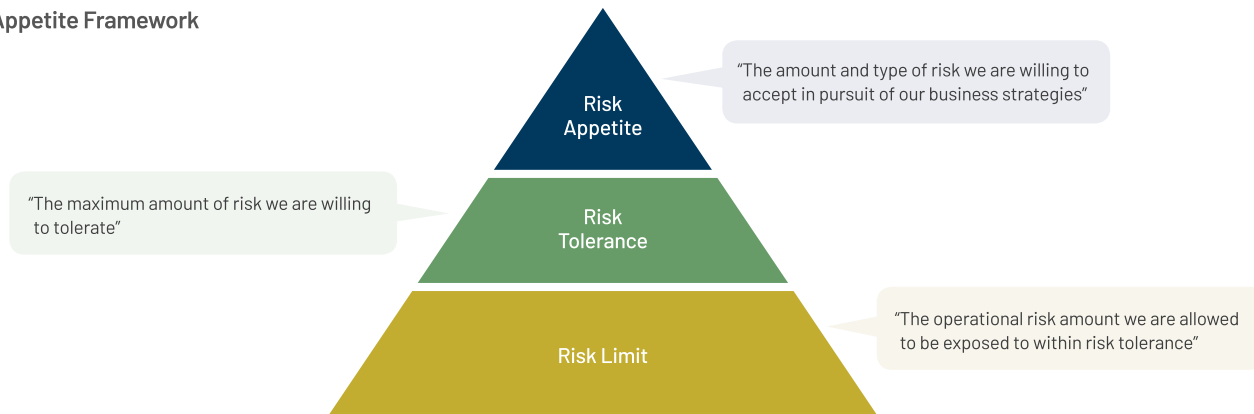
Korean Re implements enterprise risk management initiatives to achieve a stable set of risk management objectives. The objectives are as follows:

- 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; and
- 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



# Management's Discussion & Analysis

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 of more than 8%
- Maintain conservative risks at a medium-low level considering our capital level
- Improve capital efficiency by optimizing insurance and investment portfolios
- 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 meet day-to-day financial obligations (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.

## Portfolio Optimization

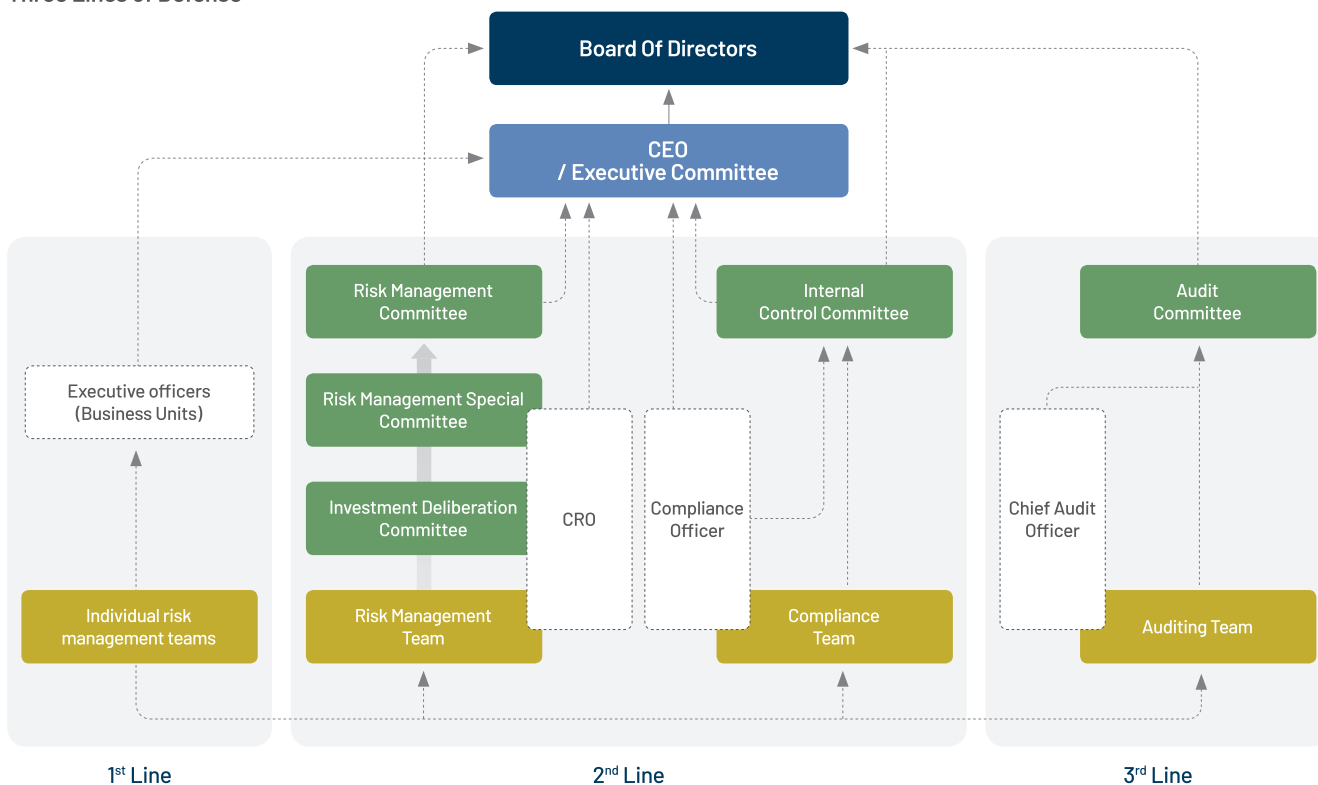
Korean Re performs business planning by analyzing the risks and profitability of its businesses. We measure return on risk-adjusted capital (RORAC) for each line of our insurance business and investment asset portfolio through our own internal model. Based on this, the Strategic Planning office draws 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. (Overseas office staff 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 (CRO), Risk Management Committee (RMC), Risk Management Special Committees (RMSC), Investment Deliberation Committee, and compliance functions, i.e. the Compliance Team, Compliance Officer and Internal Control Committee. The third line of defense provides independent assurance through an internal audit and validates the effectiveness of the first and second lines of defense in fulfilling their responsibilities and managing our risk profile.

### Three Lines of Defense



### Key Risks

We manage five key risks— insurance risk, financial risk (credit & market), liquidity risk, emerging risk and 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.

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 a stochastic simulation.

Key Risks		
<b>Insurance Risk</b>	<b>Financial Risk</b>	<b>Liquidity Risk</b>
<ul style="list-style-type: none"> <li>• Premium Risk</li> <li>• Reserve Risk</li> <li>• Natural Catastrophe Risk</li> </ul>	<ul style="list-style-type: none"> <li>• Market Risk                             <ul style="list-style-type: none"> <li>- Interest Rate Risk</li> <li>- Equity Risk</li> <li>- Exchange Rate Risk</li> </ul> </li> <li>• Credit Risk</li> </ul>	<b>Operational Risk</b>
		<b>Emerging Risk</b>

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# Management's Discussion & Analysis

## 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 or systems or human errors, and/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 and other internal regulations.

## 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.

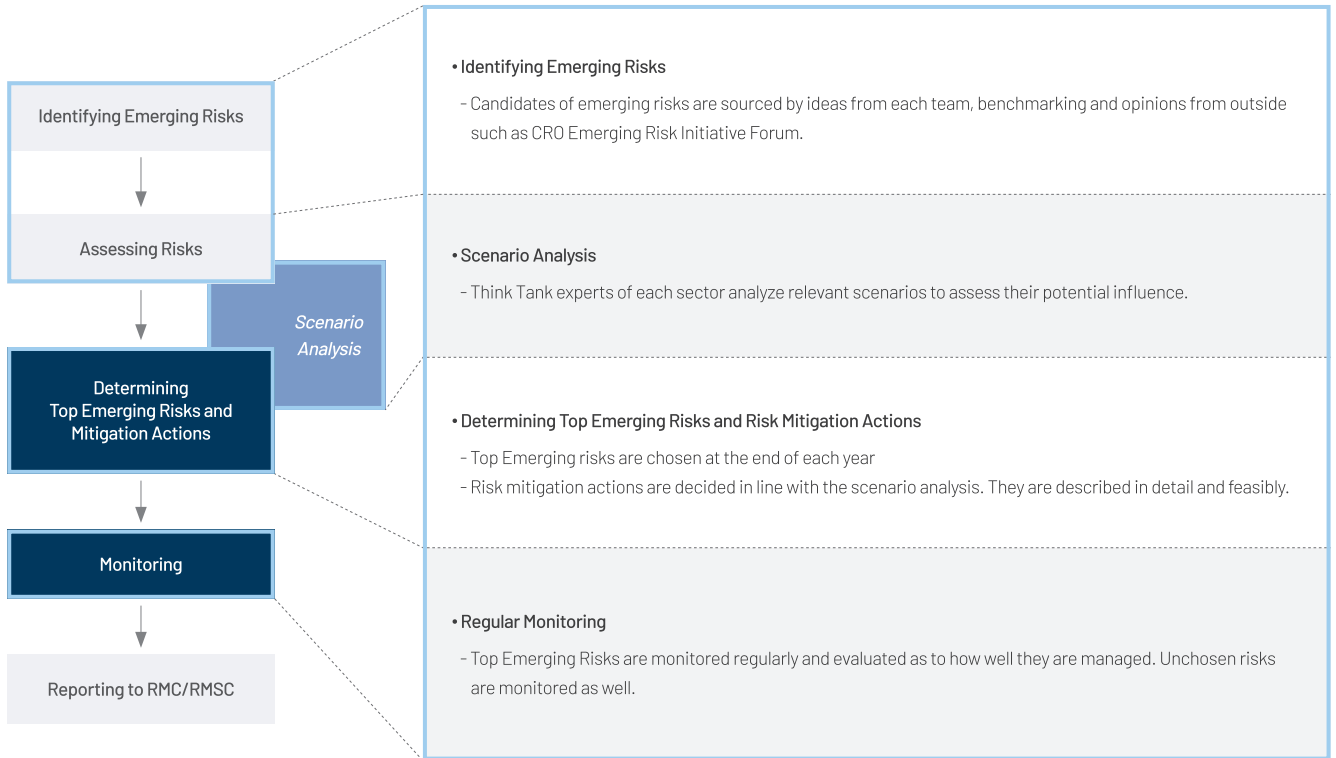
Korean Re reinforced its process of emerging risk management in 2018 to improve the management of key risks. In particular, risks with a high potential of having a negative impact on the company are determined as Top Emerging Risks.

The Top Emerging Risks that we selected for 2020 were as follows:

- Global financial crisis arising from factors like the pandemic, U.S.-China trade war and Brexit
- Any increase of volatility in occurrence patterns of natural catastrophes
- Regulatory changes involving the upcoming implementation of IFRS 17 and K-ICS
- Changes to the financial industry associated with the 4<sup>th</sup> industrial revolution

Accordingly, Korean Re also established risk mitigation actions for the year based on its emerging risk management process as below:

## Emerging Risks Management Process



Three parties are involved in emerging risk management.

Firstly, the Risk Management Team conducts the role of the control tower that sets up overall management plans, monitors how risk mitigation actions are fulfilled and then reports to the RMC/RMSC.

The second is Think Tank, which is an expert group. The members are experts of each operation sector in the company (e.g. underwriters, lawyers, natural catastrophe modelers, medical doctors, claim handlers and actuaries). They take the responsibility of analyzing identified emerging risks and establishing relevant future scenarios on the risks.

Thirdly, all teams in the company provide their ideas and opinions on what could be potential risks to the company when emerging risks are identified. In addition, they are the main executors of risk mitigation actions.

# Consolidated Statements of Financial Position

As at December 31, 2020 and 2019

(Units: KRW million, USD thousand)

	FY 2020 (KRW)	FY 2020 (USD)	FY 2019 (KRW)	FY 2019 (USD)
<b>Assets</b>				
I . Cash and cash equivalents	471,608	429,281	360,117	308,029
II . Financial assets:	9,117,346	8,299,059	8,942,817	7,649,317
1. Deposits	171,392	156,009	224,626	192,136
2. Financial assets at fair value through profit or loss	45,234	41,174	308,956	264,268
3. Available-for-sale financial assets	4,391,037	3,996,939	4,124,023	3,527,519
4. Held-to-maturity financial assets	-	-	-	-
5. Derivative financial assets designated as hedges	37,659	34,279	7,186	6,147
6. Loans	1,170,236	1,065,207	1,014,286	867,578
7. Receivables	3,301,788	3,005,451	3,263,740	2,791,669
III. Investments in associates	5,495	5,002	5,920	5,064
IV. Property and equipment	97,319	88,585	95,000	81,259
V . Investment properties	91,351	83,152	91,886	78,596
VI. Intangible assets	20,856	18,984	15,565	13,314
VII. Other non-financial assets	2,715,972	2,472,212	2,221,811	1,900,446
<b>Total assets</b>	<b>12,519,947</b>	<b>11,396,275</b>	<b>11,733,115</b>	<b>10,036,025</b>
<b>Liabilities</b>				
I . Insurance contract liabilities	6,703,011	6,101,412	5,974,644	5,110,464
II . Financial liabilities	2,789,118	2,538,793	2,840,531	2,429,673
III. Other non-financial liabilities	571,889	520,561	461,926	395,113
1. Current income tax liabilities	26,510	24,131	729	624
2. Deferred income tax liabilities	396,159	360,603	379,166	324,323
3. Retirement benefit liabilities	28,132	25,607	16,171	13,832
4. Other liabilities	121,088	110,220	65,860	56,334
<b>Total liabilities</b>	<b>10,064,018</b>	<b>9,160,766</b>	<b>9,277,101</b>	<b>7,935,250</b>
<b>Equity</b>				
I . Capital stock	60,185	54,783	60,185	51,480
II . Capital surplus	176,375	160,545	176,375	150,864
III. Hybrid equity security	229,439	208,847	229,439	196,253
IV. Capital adjustments	(134,066)	(122,033)	(60,579)	(51,817)
V . Accumulated other comprehensive income	223,439	203,385	201,902	172,699
VI. Retained earnings	1,900,558	1,729,982	1,848,693	1,581,296
<b>Total shareholders' equity</b>	<b>2,455,930</b>	<b>2,235,509</b>	<b>2,456,015</b>	<b>2,100,775</b>
<b>Total liabilities and shareholders' equity</b>	<b>12,519,948</b>	<b>11,396,275</b>	<b>11,733,115</b>	<b>10,036,025</b>

Note: For the B/S section, Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,098.60 per USD 1 for FY 2020 and KRW 1,169.10 for FY 2019. For the I/S section, the applicable exchange rate was KRW 1,191.78 per USD 1 for FY 2020 and KRW 1,176.52 for FY 2019.

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

# Consolidated Statements of Comprehensive Income

For the years ended December 31, 2020 and 2019

(Units: KRW million, USD thousand)

	FY 2020 (KRW)	FY 2020 (USD)	FY 2019 (KRW)	FY 2019 (USD)
<b>I . Operating revenue</b>	<b>11,300,993</b>	<b>9,482,450</b>	<b>10,669,921</b>	<b>9,069,051</b>
1. Premium income	8,447,068	7,087,775	8,051,548	6,843,528
2. Reinsurance income	2,110,488	1,770,870	1,863,433	1,583,852
3. Expenses recovered	347,995	291,996	333,473	283,440
4. Interest income	153,433	128,743	158,493	134,713
5. Dividend income	29,097	24,415	32,061	27,251
6. Investment income from financial instruments	108,275	90,851	79,072	67,208
7. Other operating revenues	104,638	87,800	151,840	129,059
<b>II . Operating expenses</b>	<b>11,108,734</b>	<b>9,321,126</b>	<b>10,420,076</b>	<b>8,856,694</b>
1. Reinsurance expenses	2,546,996	2,137,136	2,518,565	2,140,690
2. Insurance claims and benefits expenses	6,769,933	5,680,522	6,322,130	5,373,585
3. Provision for insurance contract liabilities	238,839	200,405	211,758	179,987
4. Operating and administrative expenses	1,209,348	1,014,741	1,127,893	958,669
5. Claim handling expenses	124,927	104,824	122,676	104,270
6. Asset management expenses	4,843	4,064	4,405	3,744
7. Interest expenses	265	222	403	343
8. Investment expenses from financial instruments	47,476	39,836	56,863	48,332
9. Other operating expenses	166,106	139,376	55,383	47,074
<b>III. Operating income</b>	<b>192,259</b>	<b>161,324</b>	<b>249,845</b>	<b>212,357</b>
<b>IV. Non-operating income</b>	<b>995</b>	<b>835</b>	<b>656</b>	<b>558</b>
<b>V . Non-operating expenses</b>	<b>3,001</b>	<b>2,518</b>	<b>3,483</b>	<b>2,960</b>
<b>VI. Income before income taxes</b>	<b>190,252</b>	<b>159,641</b>	<b>247,017</b>	<b>209,955</b>
<b>VII. Income tax expenses</b>	<b>48,201</b>	<b>40,445</b>	<b>58,307</b>	<b>49,559</b>
<b>VIII. Net income</b>	<b>142,052</b>	<b>119,196</b>	<b>188,710</b>	<b>160,396</b>
<b>IX. Other comprehensive income (loss)</b>	<b>21,537</b>	<b>18,071</b>	<b>80,022</b>	<b>68,016</b>
<b>X . Total comprehensive income</b>	<b>163,589</b>	<b>137,267</b>	<b>268,732</b>	<b>228,412</b>

Note: For the B/S section, Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,098.60 per USD 1 for FY 2020 and KRW 1,169.10 for FY 2019. For the I/S section, the applicable exchange rate was KRW 1,191.78 per USD 1 for FY 2020 and KRW 1,176.52 for FY 2019.

\* 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, 2020 and 2019

(Unit: KRW million)

	Capital stock	Capital surplus	Hybrid equity security	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
<b>As at January 1, 2019</b>	<b>60,185</b>	<b>176,375</b>	<b>212,286</b>	<b>(35,311)</b>	<b>121,880</b>	<b>1,702,200</b>	<b>2,237,615</b>
Dividends of hybrid equity security	-	-	-	-	-	(10,629)	(10,629)
Acquisition of treasury stocks	-	-	-	(1,841)	-	-	(1,841)
Cash dividends	-	-	-	-	-	(31,589)	(31,589)
Redemption and issuance of hybrid equity security	-	-	17,153	(23,427)	-	-	(6,274)
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
Loss 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)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>80,022</b>	<b>188,710</b>	<b>268,732</b>
<b>As at December 31, 2019</b>	<b>60,185</b>	<b>176,375</b>	<b>229,439</b>	<b>(60,579)</b>	<b>201,902</b>	<b>1,848,693</b>	<b>2,456,015</b>
<b>As at January 1, 2020</b>	<b>60,185</b>	<b>176,375</b>	<b>229,439</b>	<b>(60,579)</b>	<b>201,902</b>	<b>1,848,693</b>	<b>2,456,015</b>
Cash dividends	-	-	-	-	-	(57,435)	(57,435)
Acquisition of treasury stocks	-	-	-	(96,914)	-	-	(96,914)
Dividends of hybrid equity security	-	-	-	-	-	(9,325)	(9,325)
Amortization of losses on hybrid equity security	-	-	-	23,427	-	(23,427)	-
Net income	-	-	-	-	-	142,052	142,052
Gain on valuation of available-for-sale financial assets	-	-	-	-	31,917	-	31,917
Exchange difference on translating foreign operations	-	-	-	-	(5,923)	-	(5,923)
Gain on valuation of derivative instruments designated as cash flow hedges	-	-	-	-	3,097	-	3,097
Loss on remeasurement of the net defined benefit liabilities	-	-	-	-	(7,554)	-	(7,554)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,537</b>	<b>142,052</b>	<b>163,589</b>
<b>As at December 31, 2020</b>	<b>60,185</b>	<b>176,375</b>	<b>229,439</b>	<b>(134,066)</b>	<b>223,439</b>	<b>1,900,558</b>	<b>2,455,930</b>



# Consolidated Statements of Changes in Equity (USD)

For the years ended December 31, 2020 and 2019

(Unit: USD thousand)

	Capital stock	Capital surplus	Hybrid equity security	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
<b>As at January 1, 2019</b>	<b>54,783</b>	<b>160,545</b>	<b>193,233</b>	<b>(32,142)</b>	<b>110,941</b>	<b>1,549,427</b>	<b>2,036,787</b>
Dividends of hybrid equity security	-	-	-	-	-	(9,675)	(9,675)
Acquisition of treasury stocks	-	-	-	(1,676)	-	-	(1,676)
Cash dividends	-	-	-	-	-	(28,753)	(28,753)
Redemption and issuance of hybrid equity security	-	-	15,614	(21,324)	-	-	(5,710)
Net income	-	-	-	-	-	171,773	171,773
Gain on valuation of available-for-sale financial assets	-	-	-	-	62,999	-	62,999
Gain on valuation of held-to-maturity financial assets	-	-	-	-	3,005	-	3,005
Exchange difference on translating foreign operations	-	-	-	-	8,333	-	8,333
Loss on valuation of derivative instruments designated as cash flow hedges	-	-	-	-	(408)	-	(408)
Loss on remeasurement of the net defined benefit liabilities	-	-	-	-	(1,089)	-	(1,089)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>72,840</b>	<b>171,773</b>	<b>244,613</b>
<b>As at December 31, 2019</b>	<b>54,783</b>	<b>160,545</b>	<b>208,847</b>	<b>(55,142)</b>	<b>183,781</b>	<b>1,682,772</b>	<b>2,235,586</b>
<b>As at January 1, 2020</b>	<b>54,783</b>	<b>160,545</b>	<b>208,847</b>	<b>(55,142)</b>	<b>183,781</b>	<b>1,682,772</b>	<b>2,235,586</b>
Cash dividends	-	-	-	-	-	(52,280)	(52,280)
Acquisition of treasury stocks	-	-	-	(88,216)	-	-	(88,216)
Dividends of hybrid equity security	-	-	-	-	-	(8,488)	(8,488)
Amortization of losses on hybrid equity security	-	-	-	21,325	-	(21,325)	-
Net income	-	-	-	-	-	129,303	129,303
Gain on valuation of available-for-sale financial assets	-	-	-	-	29,052	-	29,052
Exchange difference on translating foreign operations	-	-	-	-	(5,391)	-	(5,391)
Gain on valuation of derivative instruments designated as cash flow hedges	-	-	-	-	2,819	-	2,819
Loss on remeasurement of the net defined benefit liabilities	-	-	-	-	(6,876)	-	(6,876)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,604</b>	<b>129,303</b>	<b>148,907</b>
<b>As at December 31, 2020</b>	<b>54,783</b>	<b>160,545</b>	<b>208,847</b>	<b>(122,033)</b>	<b>203,385</b>	<b>1,729,982</b>	<b>2,235,509</b>

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, 2020 and 2019

(Units: KRW million, USD thousand)

	FY 2020 (KRW)	FY 2020 (USD)	FY 2019 (KRW)	FY 2019 (USD)
<b>I . Cash flows from operating activities</b>	<b>517,496</b>	<b>471,052</b>	<b>309,662</b>	<b>264,872</b>
1. Income before income taxes	142,052	129,303	188,710	161,415
2. Cash generated from operations	190,378	173,291	(110,849)	(94,816)
3. Receipt of interest	161,898	147,368	186,249	159,310
4. Payment of interest	(352)	(320)	(101)	(86)
5. Receipt of dividends	29,097	26,486	35,983	30,778
6. Refund(payment) of income taxes	(5,577)	(5,076)	9,670	8,271
<b>II . Cash flows from investing activities</b>	<b>(234,510)</b>	<b>(213,462)</b>	<b>(59,013)</b>	<b>(50,479)</b>
1. Cash inflows	1,412,784	1,285,986	917,530	784,817
2. Cash outflows	(1,647,294)	(1,499,448)	(976,544)	(835,296)
<b>III . Cash flows from financing activities</b>	<b>(168,449)</b>	<b>(153,330)</b>	<b>(61,758)</b>	<b>(52,825)</b>
1. Cash inflows	237	216	229,937	196,679
2. Cash outflows	(168,686)	(153,546)	(291,695)	(249,504)
<b>IV . Net increase(decrease) in cash and cash equivalents ( I + II +III)</b>	<b>114,538</b>	<b>104,259</b>	<b>188,891</b>	<b>161,568</b>
<b>V . Effects of changes in foreign exchange rates on cash and cash equivalents</b>	<b>(3,046)</b>	<b>(2,773)</b>	<b>(4,341)</b>	<b>(3,712)</b>
<b>VI . Cash and cash equivalents at the beginning of the year</b>	<b>360,117</b>	<b>327,796</b>	<b>175,567</b>	<b>150,174</b>
<b>VII . Cash and cash equivalents at the end of year</b>	<b>471,608</b>	<b>429,281</b>	<b>360,117</b>	<b>308,029</b>

Note: For the B/S section, Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,098.60 per USD 1 for FY 2020 and KRW 1,169.10 for FY 2019. For the I/S section, the applicable exchange rate was KRW 1,191.78 per USD 1 for FY 2020 and KRW 1,176.52 for FY 2019.

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

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# 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 is not offset against the relevant expense or income

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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 statements 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 1,098.60 to USD 1, the telegraphic transfer selling rate of exchange as at December 31, 2020. The profit and loss account is translated at KRW 1,191.78 to USD 1, the average exchange rate of the period.

### 3. Cash and cash equivalents

Cash and cash equivalents as at December 31, 2020 are as follows:

(Units: KRW million, USD thousand)

	FY 2020 (KRW)	FY 2020 (USD)
Cash on hand	1	1
Short-term bank deposits	471,607	429,280
<b>Total</b>	<b>471,608</b>	<b>429,281</b>

### 4. Financial assets

Carrying value and fair value of financial assets as at December 31, 2020 are as follows:

(Units: KRW million, USD thousand)

	Carrying value		Fair value	
	(KRW)	(USD)	(KRW)	(USD)
Deposits	171,392	156,009	171,392	156,009
Financial assets at FVTPL	45,234	41,174	45,234	41,174
Available-for-sale financial assets	4,391,037	3,996,939	4,391,037	3,996,939
Derivative financial assets designated as hedges	37,659	34,279	37,659	34,279
Loans	1,170,236	1,065,207	1,186,157	1,079,699
Receivables	3,301,788	3,005,451	3,301,809	3,005,470
<b>Total</b>	<b>9,117,346</b>	<b>8,299,059</b>	<b>9,133,288</b>	<b>8,313,570</b>

### 5. Deposits

Deposits as at December 31, 2020 are as follows:

(Units: KRW million, USD thousand)

	FY 2020 (KRW)	FY 2020 (USD)
Term deposits	10,000	9,102
Overseas deposits	144,779	131,785
Other deposits	16,613	15,122
<b>Total</b>	<b>171,392</b>	<b>156,009</b>

### 6. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss as at December 31, 2020 are as follows:

(Units: KRW million, USD thousand)

	FY 2020 (KRW)	FY 2020 (USD)
Stock	-	-
Beneficiary certificates	37,017	33,694
Securities in foreign currencies	8,217	7,480
<b>Total</b>	<b>45,234</b>	<b>41,174</b>

## 7. Available-for-sale financial assets

Available-for-sale financial assets as at December 31, 2020 are as follows:

(Units: KRW million, USD thousand)

	FY 2020 (KRW)	FY 2020 (USD)
Stock	51,025	46,445
Equity investment	136,087	123,873
Government and public bonds	373,444	339,927
Special bonds	228,182	207,703
Financial bonds	181,580	165,283
Corporate bonds	1,109,216	1,009,663
Beneficiary certificates	660,676	601,380
Securities in foreign currencies	1,650,189	1,502,084
Others	638	581
<b>Total</b>	<b>4,391,037</b>	<b>3,996,939</b>

## 8. Loans and receivables

Loans and receivables as at December 31, 2020 are as follows:

(Units: KRW million, USD thousand)

	FY 2020 (KRW)	FY 2020 (USD)
<b>Loans</b>		
Loans secured by securities	557,361	507,338
Loans secured by real-estate	248,405	226,111
Credit loans	1,286	1,171
Guaranteed loans	1,365	1,242
Other loans	370,317	337,081
<b>Subtotal</b>	<b>1,178,734</b>	<b>1,072,943</b>
(Allowance for possible loan losses)	(3,539)	(3,221)
(Present value discount)	(212)	(193)
(Deferred loan fee and costs)	(4,747)	(4,321)
<b>Receivables</b>		
Insurance receivables	3,297,496	3,001,544
Accounts receivables	587	534
Accrued income	40,090	36,492
Guarantee deposits	964	877
<b>Subtotal</b>	<b>3,339,137</b>	<b>3,039,447</b>
(Allowance for doubtful receivables)	(37,334)	(33,983)
(Present value discount)	(15)	(14)
<b>Total</b>	<b>4,472,024</b>	<b>4,070,658</b>

## 9. Other non-financial assets

Other non-financial assets as at December 31, 2020 are as follows:

(Units: KRW million, USD thousand)

	FY 2020 (KRW)	FY 2020 (USD)
Reinsurance assets	2,575,229	2,344,101
Compensation receivables	100,594	91,566
Current income tax assets	58	53
Deferred tax assets	3,551	3,232
Prepaid expenses	2,804	2,552
Advanced payments	25,126	22,871
Right of use assets	8,610	7,837
<b>Total</b>	<b>2,715,972</b>	<b>2,472,212</b>

## 10. Insurance contract liabilities

The Group recognizes insurance contract liabilities in accordance with the IBA and the RIS.

Insurance contract liabilities as at December 31, 2020 are as follows:

### (1) Reserve for outstanding claims

(Units: KRW million, USD thousand)

	FY 2020 (KRW)	FY 2020 (USD)
Fire insurance	46,409	42,244
Marine insurance	224,959	204,769
Motor insurance	146,703	133,536
Surety insurance	38,794	35,312
Engineering insurance	191,196	174,036
Workers' compensation insurance	27,579	25,104
Liability insurance	296,425	269,821
Personal accident insurance	75,191	68,443
Comprehensive insurance	727,675	662,366
Other casualty insurance	262,676	239,101
Overseas inward insurance	1,769,739	1,610,904
Long-term insurance	840,686	765,234
Personal annuity	541	492
<b>Total</b>	<b>4,648,573</b>	<b>4,231,362</b>

## (2) Unearned premium reserve

(Units: KRW million, USD thousand)

	FY 2020 (KRW)	FY 2020 (USD)
Fire insurance	56,963	51,851
Marine insurance	67,526	61,466
Motor insurance	271,393	247,035
Surety insurance	280,993	255,774
Engineering insurance	157,046	142,951
Workers' compensation insurance	6,010	5,471
Liability insurance	135,910	123,712
Personal accident insurance	73,706	67,091
Comprehensive insurance	191,347	174,173
Other casualty insurance	209,397	190,603
Overseas inward insurance	604,147	549,923
<b>Total</b>	<b>2,054,438</b>	<b>1,870,050</b>

## 11. Equity

### (1) Capital stock

Details of capital stock as at December 31, 2020 are as follows

	FY 2020 (KRW)	FY 2020 (USD)
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)	<b>60,185</b>	<b>54,783</b>

### (2) Capital surplus

Capital surplus consists of the following as at December 31, 2020

(Units: KRW million, USD thousand)

	FY 2020 (KRW)	FY 2020 (USD)
Paid-in capital in excess of par value	103,729	94,419
Other capital reserve	72,646	66,126
<b>Total</b>	<b>176,375</b>	<b>160,545</b>

### (3) Capital adjustments

Capital adjustments consist of the following as at December 31, 2020

(Units: KRW million, USD thousand)

	FY 2020 (KRW)	FY 2020 (USD)
Treasury stock	(134,066)	(122,033)
<b>Total</b>	<b>(134,066)</b>	<b>(122,033)</b>



#### (4) Accumulated other comprehensive income

Accumulated other comprehensive income consists of the following as at December 31, 2020

(Units: KRW million, USD thousand)

	FY 2020 (KRW)	FY 2020 (USD)
Gain on valuation of available-for-sale financial assets	168,098	153,011
Asset revaluation surplus	68,979	62,788
Exchange difference on translating foreign operations	(5,894)	(5,365)
Gain on valuation of derivative instruments designated as cash flow hedges	1,992	1,813
Re-measurement of the net defined benefit liabilities	(9,736)	(8,862)
<b>Total</b>	<b>223,439</b>	<b>203,385</b>

#### (5) Retained earnings

Retained earnings as at December 31, 2020 are as follows:

(Units: KRW million, USD thousand)

	FY 2020 (KRW)	FY 2020 (USD)
Legal reserve	30,092	27,391
Bad debt reserve	21,797	19,841
Catastrophe reserve	1,290,485	1,174,663
Business rationalization reserve	2,033	1,851
Voluntary reserve	426,679	388,384
Unappropriated retained earnings	129,472	117,852
<b>Total</b>	<b>1,900,558</b>	<b>1,729,982</b>

#### (6) Hybrid equity security

Hybrid equity security as at December 31, 2020 is as follows:

	Description <sup>1)</sup>
Date issued	October 21, 2019
Amounts issued	₩ 230,000,000,000
Maturity <sup>2)</sup>	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 10 <sup>th</sup> year)

<sup>1)</sup> Although hybrid equity securities have maturities, they have capital requirements, such as that the Group has the right to continue to extend maturities.

<sup>2)</sup> The Group will not pay interest if no dividends are paid on the common shares.

# Independent Auditors' Report

## To the Shareholders and the Board of Directors of Korean Reinsurance Company and its Subsidiaries:

### Our Opinion

We have audited the accompanying consolidated financial statements of Korean Reinsurance Company and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows, all expressed in Korean Won, for the year then ended, and notes to consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

### Basis for Audit Opinion

We conducted our audit in accordance with the Korean Standards on Auditing ("KSAs"). Our responsibilities under those standards are further described in the Auditors' 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 audit opinion.

### Key Audit Matters

The 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 year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

### Assessment of Insurance Contract Liabilities Reserve for Outstanding Claims

As described in Note 2.3.14 Insurance contract liabilities and Note 3.4 Adequacy test for insurance contract liabilities in accordance with the Insurance Supervision Regulations and Related Acts (the Regulations for Supervision) as of December 31, 2020, 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. The reserve for outstanding

claims is 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 19 Insurance Contract Liabilities, the carrying amount of the reserve for outstanding claims as of December 31, 2020 is ₩4,648,573 million, accounting for 69% of the total insurance contract liability of ₩6,703,011 million. 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 and it involves, to an extent, management estimates, and it is related to other consolidated 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 performed to address this key audit matter are as follows:

- Understanding the Group's policies, process and internal controls related to the calculation of reserve for outstanding claims.
- Understanding and assessing systems related to the calculation of reserve for outstanding claims.
- Confirming that the reserve calculating method is consistent with the supervisory regulations.
- Testing the effectiveness of design and operating of the internal control related to the calculation of reserve for outstanding claims.
- Testing the completeness and accuracy of the reserve for outstanding claims through document inspection based on sampling.
- Testing the accuracy of the reserve for outstanding claims through the recalculation for items calculated according to the supervisory regulations.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the accompanying consolidated financial statements in accordance with K-IFRS, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management of the Group 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.

### Other Matters

The Group's consolidated financial statements for the year ended December 31, 2019, were audited by the previous auditors and the auditors' audit report dated March 18, 2020, expressed an unqualified opinion.

### Auditors' 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 auditors' 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 KSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with KSAs, 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 audit 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 the 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We are 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 of the Group with a statement that we have complied with relevant ethical requirements regarding independence and to 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 auditors' 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 engagement partner on the audit resulting in this independent auditors' report is Sun Hee, Gong.



Deloitte Anjin LLC  
March 18, 2021

### Notice to Readers

This report is effective as of March 18, 2021, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the consolidated financial statements and may result in modifications to the auditors' report.