
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

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 |
| Total | 471,608 | 429,281 |

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 |
| Total | 9,117,346 | 8,299,059 | 9,133,288 | 8,313,570 |

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 |
| Total | 171,392 | 156,009 |

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 |
| Total | 45,234 | 41,174 |

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 |
| Total | 4,391,037 | 3,996,939 |

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) |
|--------------------------------------|------------------|------------------|
| Loans | | |
| 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 |
| Subtotal | 1,178,734 | 1,072,943 |
| (Allowance for possible loan losses) | (3,539) | (3,221) |
| (Present value discount) | (212) | (193) |
| (Deferred loan fee and costs) | (4,747) | (4,321) |
| Receivables | | |
| Insurance receivables | 3,297,496 | 3,001,544 |
| Accounts receivables | 587 | 534 |
| Accrued income | 40,090 | 36,492 |
| Guarantee deposits | 964 | 877 |
| Subtotal | 3,339,137 | 3,039,447 |
| (Allowance for doubtful receivables) | (37,334) | (33,983) |
| (Present value discount) | (15) | (14) |
| Total | 4,472,024 | 4,070,658 |

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 |
| Total | 2,715,972 | 2,472,212 |

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 |
| Total | 4,648,573 | 4,231,362 |

(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 |
| Total | 2,054,438 | 1,870,050 |

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) | 60,185 | 54,783 |

(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 |
| Total | 176,375 | 160,545 |

(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) |
| Total | (134,066) | (122,033) |

(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) |
| Total | 223,439 | 203,385 |

(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 |
| Total | 1,900,558 | 1,729,982 |

(6) Hybrid equity security

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

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

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

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