Financial Review

FY 2021

Management's Discussion & Analysis

Overview of Business Environment

In 2021, the Korean insurance market struggled with slowing growth due to a decrease in new business volume and heightened economic uncertainty in the aftermath of the COVID-19 outbreak. Despite this downward pressure on growth, insurers unexpectedly benefited from the pandemic, showing a marked improvement in profitability.

Life insurers delivered better net income results in 2021 compared to the previous year thanks to a sharp increase in investment income amid rising interest rates. Their investment income growth was also driven by an increase in dividend income. Likewise, non-life insurance companies saw their net income surge amid narrowing underwriting losses. The improvement in underwriting results reflected a drop in motor loss ratio and a reduction in expense ratio of long-term insurance. Fewer claims arising from a decrease in road traffic and non-urgent hospital visits during the pandemic helped non-life insurers improve their loss ratios. Favorable investment performance also boosted their overall net income results.

Meanwhile, insurers in Korea have been going all out to successfully embrace new accounting and solvency regimes. Over the last few years, 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 to boost their RBC ratios, such as issuing subordinated bonds and hybrid capital securities and making use of reinsurance and coinsurance.

Another pressing issue for insurers in Korea has been increasing underwriting losses of medical expense insurance. Over the past several years, premium rates of medical expense insurance have been soaring, but there has been no sign of significant improvement in technical results. The insurance industry has recently introduced a fourth version of medical expense insurance with reduced coverage in a bid to get rising loss ratios under control. Insurers are encouraging policyholders of previous versions of insurance to opt for transition to the new version. In addition to this industry initiative, insurance supervisory authorities are also working to strengthen the oversight and monitoring of overtreatment practices. It remains to be seen how successfully insurers will manage their loss ratios and tackle the long-standing challenge that has been a threat to their overall profitability.

Highlights of Business Results

Korean Re reported strong business results in 2021 on the back of robust investment gains, with after-tax net income increasing by 7.9% to KRW 153.3 billion. However, our top-line growth slowed to 0.5%, as we continued to focus on building profit-oriented portfolios. In 2021, our gross written premiums remained steady at KRW 8,488.7 billion, and net written premiums grew by 2.7% to KRW 6,060.9 billion.

In spite of net income growth, our underwriting results took a negative turn mostly due to our overseas COVID-19 and natural catastrophe losses and persistently unfavorable results from domestic personal lines of business. We posted an underwriting loss of KRW 115.7 billion in 2021, with the combined ratio increasing by 0.3%p to 100.9%. Our underwriting performance, excluding COVID-19 losses, actually improved with a profit of KRW 15 billion.

The weak technical results were largely softened by our investment performance. In the face of a challenging investment environment, we delivered strong investment results, with total investment returns reaching KRW 244.9 billion, excluding gains and/or losses from foreign exchange hedging for insurance liabilities.

Our assets continued to grow in step with our business growth. We reported KRW 13,115.7 billion in total assets as of the end of 2021, up KRW 595.7 billion. There was also a significant rise of KRW 747.8 billion in invested assets, which totaled KRW 7,186 billion. We maintained our capital position at a stable level, with total shareholders' equity standing at KRW 2,525.7 billion as of late December 2021.

Management's Discussion & Analysis

Analysis of Business Results

Premium Growth

In 2021, Korean Re went through a rough patch in terms of premium growth due to ongoing portfolio readjustment. We wrote gross premiums of KRW 8,488.7 billion in 2021, up 0.5% from the previous year. Our domestic business managed to achieve positive growth, with premiums rising by 0.8% to KRW 6,252.3 billion. However, overseas premium growth turned negative, with premiums declining by 0.4% to KRW 2,236.4 billion. Despite this slower growth, our net written premiums increased by 2.7% to KRW 6,060.9 billion in 2021. As we continued to raise our retention of profitable business, the overall retention rate went up to 71.4% from 69.8%.

Throughout the year, we placed a strategic focus on strengthening our business portfolios and improving our long-term profitability. In this regard, we restricted the growth of loss-making domestic personal lines of business, including life and health business. We also reduced our participation in poorly performing accounts in commercial lines of business.

Amid these moves to improve the strength of our portfolios, we were able to grow our domestic premium volume in some lines of business. In particular, we achieved strong growth across all lines of domestic property insurance in 2021 thanks to a favorable rating environment and greater dependency of primary insurers on reinsurance. Our domestic hull premiums increased considerably as there were substantial rate rises in the Korean market after several large losses in 2019. The gradual recovery of the engineering market in Korea also worked in favor of our business growth, resulting in a double-digit increase in our domestic engineering premiums.

Active portfolio management led our overseas business to decrease marginally. Although overall premium volume declined, we managed to make progress in growing our overseas business in certain lines of business. At the head office, our international facultative business continued to deliver double-digit premium growth, driven by a continuously favorable rating environment. We also recorded a spike in business from our Korea Interest Abroad (KIA) accounts with gross written premiums soaring by more than 44%.

Volume of Premiums

(Units: KRW billion, USD million)

	FY 2021 (KRW)	FY 2021 (USD)	FY 2020 (KRW)	FY 2020 (USD)	YoY Change*
Gross Written Premiums	8,488.7	7,385.2	8,447.1	7,087.8	0.5%
Net Written Premiums	6,060.9	5,273.0	5,900.1	4,950.7	2.7%
Earned Premiums	6,018.3	5,236.0	5,834.0	4,895.2	3.2%
Ceded Premiums	2,427.8	2,112.2	2,547.0	2,137.1	-4.7%

* YoY change is based on the value in KRW.

Breakdown of Gross Written Premiums

(Units: KRW billion, USD million)

	FY 2021 (KRW)	FY 2021 (USD)	FY 2020 (KRW)	FY 2020 (USD)	YoY Change*
Property	1,240.2	1,079.0	1,188.9	997.6	4.3%
Engineering**	797.3	693.6	797.4	669.1	-
Marine & Aviation	401.5	349.3	418.6	351.2	-4.1%
Casualty	1,155.2	1,005.0	1,331.7	1,117.4	-13.3%
Long-term	2,531.5	2,202.5	2,408.0	2,020.5	5.1%
Motor	669.3	582.3	605.4	508.0	10.6%
Life and Health	1,309.2	1,139.0	1,466.2	1,230.3	-10.7%
Overseas Operations***	384.4	334.4	231.0	193.8	66.4%
Total	**8,488.7**	**735.2**	**8,447.1**	**7,087.8**	**0.5%**

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

Gross Written Premiums: Domestic vs. Overseas

(Units: KRW billion, USD million)

	FY 2021 (KRW)	FY 2021 (USD)	FY 2020 (KRW)	FY 2020 (USD)	YoY Change*
Domestic	6,252.3	5,439.5	6,202.5	5,204.4	0.8%
Overseas	2,236.4	1,945.7	2,244.5	1,883.3	-0.4%

* YoY change is based on the value in KRW.

Our overseas engineering insurance business showed positive growth in 2021, recovering successfully from a contraction in 2020. Furthermore, it was a landmark year for us as we booked KRW 116 billion in gross written premiums in 2021, passing the USD 100 million mark for the first time in the history of our overseas engineering business. This also represents an increase of 12% from the previous year.

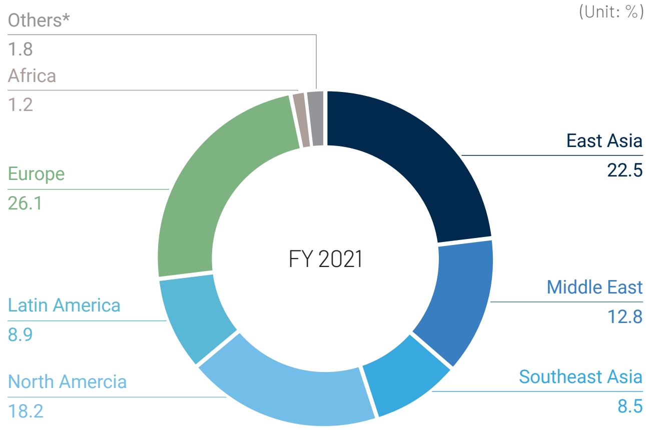
Korean Re's global business expansion was also supported by strong business growth at our overseas offices such as Korean Reinsurance Switzerland AG (KRSA) and branches in Shanghai and Dubai.

However, there was a sharp reduction in our overseas life and health premiums as we walked away from treaties with low margins and avoided underperforming contracts. Our international property treaty business written by the head office also decreased due to the transfer of the Chinese business to our Shanghai branch.

Despite a reduction in overall overseas business in 2021, Korean Re continued to diversify its global business portfolio, with Europe and the Americas taking up a greater share of the total business. A geographical breakdown of our gross written premiums shows that the American and European markets accounted for 53.2% of the entire overseas business portfolio in 2021 compared to 40.5% in 2018. It is also noteworthy that the share of Asia declined by 6.5%p to 43.8% in 2021 compared to the previous year as a result of our portfolio management, which was intended to improve overall business results.

Overseas Business Portfolio by Region

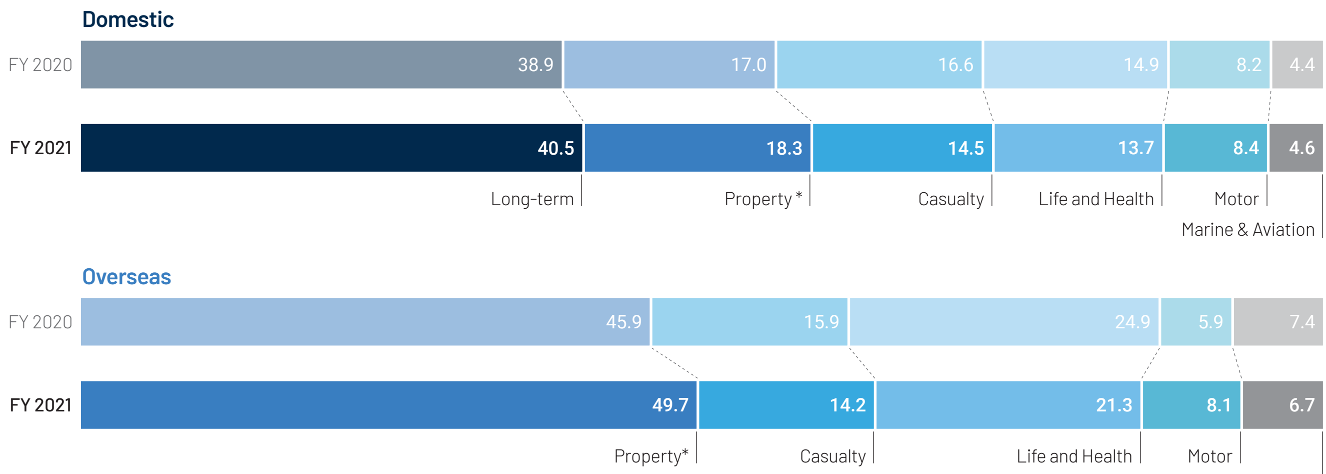
(Unit: %)



* Others include retrocession and multi-territory accounts.

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

(Unit: %)



* Property includes engineering, nuclear, and agriculture.

Management's Discussion & Analysis

Underwriting Performance

Our underwriting profitability modestly deteriorated in 2021, with the combined ratio increasing by 0.3%p to 100.9%. We had an underwriting loss of KRW 115.7 billion as our business was heavily impacted by claims related to COVID-19. Still, our underwriting performance, excluding COVID-19 losses, actually improved with a profit of KRW 15 billion.

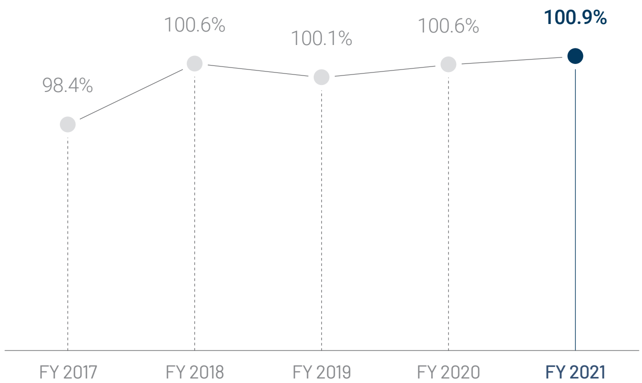
Although we adjusted our business portfolio and further tightened our underwriting guidelines, we reported weaker underwriting results for our overseas business due to COVID-19 losses of KRW 130.5 billion and elevated natural catastrophe losses, pushing the combined ratio up by 4.5%p to 103.6%. When the losses from COVID-19 were excluded, the combined ratio for our overseas business would have fallen to 96.5%, up 0.4%p from the previous year.

In 2021, our domestic personal lines of business also remained under increasing pressure from persistently high loss ratios of medical expense insurance and long-term property fire losses, resulting in a combined ratio of 101.9% in 2021 vs 101.1% in 2020.

However, we made impressive improvements in our domestic commercial business, with its combined ratio falling to 91.9% down 9.7%p. This higher underwriting profitability was driven by favorable pricing trends in most commercial lines of business and decreased frequency and severity of large-loss events in Korea.

We have come through a difficult year in terms of overall underwriting profitability, but look forward to the prospect of solid improvements in our performance in the years to come. The market has been responding to increasing claims costs by raising rates and restricting terms and conditions. In step with these market movements, we will continue to exercise strong underwriting discipline to improve our technical profitability. Favorable pricing movements, coupled with our strictly disciplined approach to underwriting, will position our business to generate strong results going forward.

Combined Ratio*



* Excluding foreign currency evaluation effects

Underwriting Results*

(Units: KRW billion, USD million)

	FY 2021 (KRW)	FY 2021 (USD)	FY 2020 (KRW)	FY 2020 (USD)	YoY Change**
Incurred Losses	5,242.8	4,561.3	5,000.5	4,195.8	4.8%
Net Operating Expenses	829.8	721.9	867.3	727.7	-4.3%
Earned Premiums	6,018.3	5,236.0	5,834.0	4,895.2	3.2%
Combined Ratio***	100.9%		100.6%		0.3%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

Investment Performance

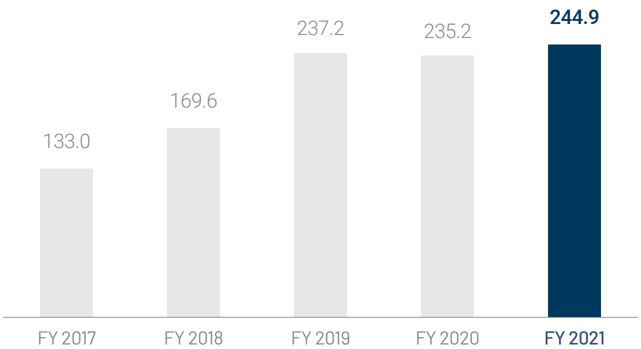
The underwriting deficit was offset by our solid investment performance. Backed by a strong return on alternative investments, we delivered robust investment results in 2021, with an investment yield of 3.7%. Our investment profit improved to KRW 244.9 billion excluding gains and/or losses from foreign exchange hedging for insurance liabilities.

Rising interest rates weighed on our overall bond investment performance in 2021. We saw our fixed-income returns decrease significantly, and investment income from bonds took up a smaller share of the overall investment profit. On the other hand, we achieved exceptional results for our alternative investments including loans, and our stock investment portfolio also pulled off big gains on the back of our effective portfolio management and market rallies.

Moving into 2022, many expect interest rate hikes to alter the investment landscape in the midst of ongoing economic uncertainty arising from the COVID-19 pandemic. In light of this future outlook, we will hold steadfast to a portfolio strategy that can generate steady returns, particularly in the face of any shock from interest rate hikes or other changes in economic conditions. This will help us maintain portfolios that are fundamentally sound and resilient against a potential increase in market uncertainty.

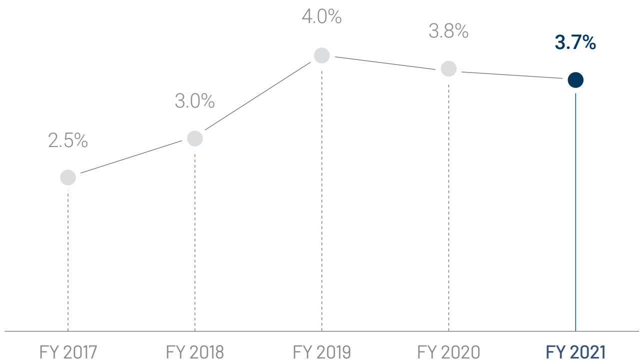
Investment Income*

(Unit: KRW billion)



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

Investment Yield*



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

Capital Strength

In 2021, we continued to optimize our capital position, and our surplus capital remained within our target range at year end. However, our solvency margin ratio (RBC ratio) fell by 13.6%p to 187.9% at the end of 2021 amid rising market interest rates, which reduced our unrealized gains on available-for-sale securities, curbing the growth of available capital. The decrease in our RBC ratio was also driven by increased capital requirements due to rising technical reserves and an increase in reinvestment.

In spite of the decline, Korean Re has remained financially robust with the RBC ratio hovering well above 150%, which is the practical guideline set by the nation's supervisory authorities. Given that the current RBC system is switching over to the K-ICS regime in 2023, we have focused on how efficiently we can manage our capital under the new regime, and our K-ICS ratio is expected to be higher than the current RBC ratio. Korean Re will always strive to optimize its capital structure and hold sufficient capital in excess of solvency requirements, thereby generating a high solvency margin ratio.

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 sound RBC ratio and to further strengthen our balance sheet with an A (stable) rating by S&P. By utilizing the buffer on the capital, we have also been able to increase the retention levels of profitable 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

Solvency Margin Ratio

	FY 2021	FY 2020	YoY Change
Solvency Margin Ratio (RBC Ratio)	187.9%	201.6%	-13.6%p

of hybrid capital securities may be considered when necessary. Specifically, we are positively considering raising additional capital to take advantage of market conditions and increase our reinsurance business acceptance as well as to maintain a strong capital position under the IFRS 17/K-ICS regimes.

We will continue to implement prudent capital management with the aim of optimizing our capital structure and holding sufficient capital in excess of solvency requirements. Our capital management strategy will remain well aligned with our vision to become a value-creating reinsurance leader.

Dividend and Stock Price Performance

Distributions to Shareholders

Korean Re always aims to offer attractive and sustainable returns to shareholders. Its total dividend payout amounted to KRW 53.7 billion in 2021. The payout ratio increased to 35.0% in 2021, with a dividend yield of 5.5%. The dividend amount per share reached an all-time high of KRW 525. We will consistently maintain our dividend policy to return value to shareholders.

Dividend Performance

	FY 2017	FY 2018	FY 2019	FY 2020	**FY 2021**
Total Dividend Amount (KRW billion)	34.5	31.6	57.4	46.0	**53.7**
Payout Ratio (%)	25.9	30.7	30.4	32.4	**35.0**
Dividend per Share (KRW)	300.0	275.0	500.0	450.0	**525.0**
Dividend Yield (%)	2.7	3.1	5.3	5.2	**5.5**

Stock Price Performance

The Korean stock market continued its bullish run into early 2021, marching on a rally that had started in the second half of 2020 and gained further momentum through late January 2021. The Korea Composite Stock Price Index, or KOSPI surpassed the 3,000 mark for the first time in history in early January. After the market remained in boxed ranges during March and April, KOSPI hit a record high of 3,316.08p in June 2021.

In August, things turned suddenly against the market amid the growing prospect of tapering and inflationary pressure. In October, Korean stocks suffered heavy losses due to concerns over global supply chain disruptions, debt ceiling tussle in the United States, and a default crisis involving Evergrande Group, pushing KOSPI to fall below 3,000 for the first time in six months. KOSPI closed the year at 2,977.65.

KOSPI Insurance mostly followed the benchmark index but outperformed the overall market. At the end of 2021, KOSPI Insurance closed 4.9% higher than a year earlier. Korean Re stocks performed stronger than other insurance stocks in 2021, with the year-end closing price soaring by 17.2% to KRW 9,250 per share. As opposed to 2020 when our stocks underperformed in tandem with the movements of KOSPI Insurance, 2021 was a year of big gains for our stock value, as high-dividend yield stocks gained much traction.

Looking ahead to 2022, market analysts remain bullish on Korean Re's stock performance, supporting the view that Korean Re stocks are still undervalued with a price to book ratio of 0.4 at the end of 2021. They are optimistic that our stocks will continue to perform well on the back of market hardening, which will help our overseas business improve underwriting profitability. Stable investment income generation based on a diversified portfolio also gives investors and analysts reasons to stay optimistic about Korean Re. This positive prospect was further bolstered in early 2022 when Korean Re started to accept new business through a coinsurance deal with Shinhan Life. Coinsurance, which was newly introduced in Korea in 2020, is likely to drive new business growth for Korean Re.

Risk Management Report

Internal Model Development Project

Korean Re has been conducting an internal model development project since September 2021 to preemptively respond to the implementation of IFRS 17 and K-ICS, which is scheduled for 2023, and to strengthen its risk-based decision-making system.

The internal model is a tool designed to measure complicated risk levels of the company, and the development project is expected to be completed in 2022. Once the internal model is put in place, the company's ability to establish and implement business strategies will be further improved in a way that enhances its risk-based business steering through more detailed risk measurement and utilization for each business unit.

In the future, the internal model is expected to be fully internalized in the company's business activities and to play a key role in setting risk appetite, operating the strategic risk management system (capital allocation, risk-based pricing), and monitoring business performance (economic profit management, etc.).

Establishment of EP Management System

Korean Re set up an economic profit (EP) management system after receiving approval from the Risk Management Committee at the end of 2020. The system has subsequently been implemented since 2021. EP is a risk-based evaluation index that comprehensively considers insurance net profit, investment contribution, business expenses, and the cost of capital. Effective EP management is expected to improve the company's Risk Adjusted Return on Capital (RAROC), and as a result the solvency margin ratio will be managed more stably.

Risk Management Framework

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

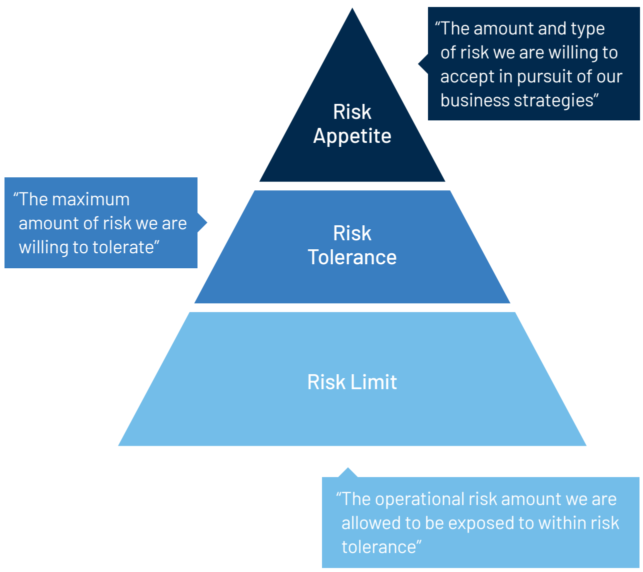
Korean Re implements enterprise risk management initiatives to achieve a stable set of risk management objectives. The objectives are as follows:

- 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 in a stable manner 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 the company's vision and business objectives. The risk appetite statement is as follows:

- Maintain the solvency ratio within an optimal rage (150%-200%)
- Focus on our comparable advantage businesses and achieve an ROE of more than 8%
- Maintain a conservative risk management policy with risks being retained at a medium-low level considering our capital
- Improve capital efficiency by optimizing insurance and investment portfolios
- Continue to improve our RAROC

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 140%)
- Maintain a credit rating of "A" or above
- Annual natural catastrophe loss ≤ 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

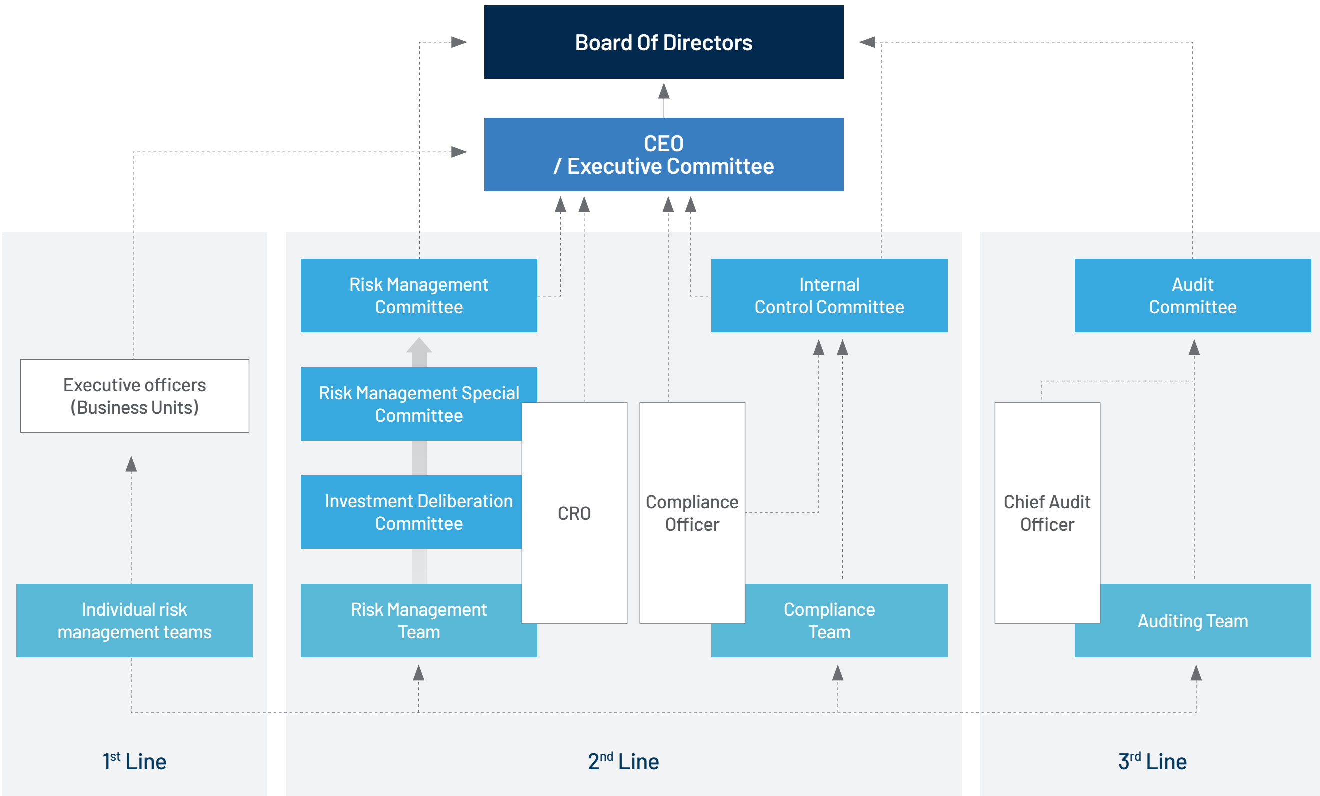
Korean Re performs business planning by analyzing the risks and profitability of its businesses. We measure return on risk-adjusted capital (RORAC) for each line of our insurance business and investment asset portfolio through our own internal model. Based on this, the Strategic Planning office draws 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, the Chief Risk Officer (CRO), the Risk Management Committee (RMC), the Risk Management Special Committee (RMSC), the Investment Deliberation Committee, and compliance functions, i.e. the Compliance Team, the Compliance Officer and the 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.

<table>
<tr><th colspan="3">Key Risks</th></tr>
<tr><th>Insurance Risk</th><th>Financial Risk</th><th>Liquidity Risk</th></tr>
<tr><td rowspan="2">• Premium Risk
• Reserve Risk
• Natural Catastrophe Risk</td><td rowspan="2">• Market Risk
- Interest Rate Risk
- Equity Risk
- Exchange Rate Risk
• Credit Risk</td><td>Operational Risk</td></tr>
<tr><td>Emerging Risk</td></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 modeling 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, including 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 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.

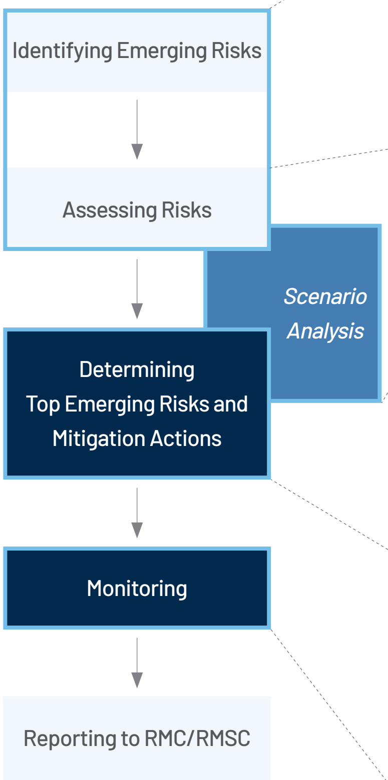
We manage these risks through effective policies and procedures that have a clear separation of duties, timely internal control, and reporting systems. Through the internal control system, operational risks are managed systemically based on our Code of Conduct and other internal regulations.

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.

Accordingly, Korean Re has also plans in place related to risk mitigation actions for the year based on its emerging risk management process as below:

Emerging Risk Management Process



- **Identifying Emerging Risks**
  - Emerging risk candidates are sourced by ideas from each team, benchmarking, and opinions from outside, such as the CRO Emerging Risk Initiative Forum.

- **Scenario Analysis**
  - Think Tank experts from each sector analyze relevant scenarios to assess their potential influence.

- **Determining Top Emerging Risks and Risk Mitigation Actions**
  - Top emerging risks are chosen at the end of each year
  - Risk mitigation actions are decided in line with the scenario analysis. They are described in detail and feasibly.

- **Regular Monitoring**
  - Top emerging risks are monitored regularly and evaluated as to how well they are managed. Unchosen risks are monitored as well.

The top emerging risks that we have selected for 2022 were as follows:

- Climate change and natural disaster risks
- Upcoming implementation of IFRS 17 and K-ICS and their implications for capital management
- Risks arising from aging populations

Consolidated Statements of Financial Position

As at December 31, 2021 and 2020

(Units: KRW million, USD thousand)

	FY 2021 (KRW)	FY 2021 (USD)	FY 2020 (KRW)	FY 2020 (USD)
Assets				
Ⅰ. Cash and cash equivalents	478,947	400,089	471,608	429,281
Ⅱ. Financial assets:	9,606,769	8,025,034	9,117,346	8,299,059
1. Deposits	214,892	179,510	171,392	156,009
2. Financial assets at fair value through profit or loss	227,940	190,410	45,234	41,174
3. Available-for-sale financial assets	4,996,863	4,174,140	4,391,037	3,996,939
4. Held-to-maturity financial assets	-	-	-	-
5. Derivative financial assets designated as hedges	150	125	37,659	34,279
6. Loans	1,078,540	900,961	1,170,236	1,065,207
7. Receivables	3,088,384	2,579,888	3,301,788	3,005,451
Ⅲ. Investments in associates	6,440	5,380	5,495	5,002
Ⅳ. Property and equipment	95,869	80,084	97,319	88,585
Ⅴ. Investment properties	90,838	75,882	91,351	83,152
Ⅵ. Intangible assets	18,153	15,164	20,856	18,984
Ⅶ. Other non-financial assets	2,818,639	2,354,556	2,715,972	2,472,212
Total assets	**13,115,655**	**10,956,189**	**12,519,947**	**11,396,275**
Liabilities				
Ⅰ. Insurance contract liabilities	7,377,619	6,162,910	6,703,011	6,101,412
Ⅱ. Financial liabilities	2,688,467	2,245,817	2,789,118	2,538,793
Ⅲ. Other non-financial liabilities	523,863	437,609	571,889	520,561
1. Current income tax liabilities	-	-	26,510	24,131
2. Deferred income tax liabilities	417,690	348,918	396,159	360,603
3. Retirement benefit liabilities	30,493	25,472	28,132	25,607
4. Other liabilities	75,680	63,219	121,088	110,220
Total liabilities	**10,589,949**	**8,846,336**	**10,064,018**	**9,160,766**
Equity				
Ⅰ. Capital stock	60,185	50,276	60,185	54,783
Ⅱ. Capital surplus	176,375	147,335	176,375	160,545
Ⅲ. Hybrid equity security	229,439	191,662	229,439	208,847
Ⅳ. Capital adjustments	(134,066)	(111,992)	(134,066)	(122,033)
Ⅴ. Accumulated other comprehensive income	193,710	161,815	223,439	203,385
Ⅵ. Retained earnings	2,000,064	1,670,758	1,900,558	1,729,982
Total shareholders' equity	**2,525,706**	**2,109,853**	**2,455,930**	**2,235,509**
Total liabilities and shareholders' equity	**13,115,655**	**10,956,189**	**12,519,948**	**11,396,275**

Note: For the B/S section, Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,197.1 per USD 1 for FY 2021 and KRW 1,098.6 for FY 2020. For the I/S section, the applicable exchange rate was KRW 1,149.42 per USD 1 for FY 2021 and KRW 1,191.78 for FY 2020.

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2021 and 2020

(Units: KRW million, USD thousand)

	FY 2021 (KRW)	FY 2021 (USD)	FY 2020 (KRW)	FY 2020 (USD)
Ⅰ. Operating revenue	**10,915,537**	**9,496,561**	**11,300,993**	**9,482,450**
1. Premium income	8,488,720	7,385,220	8,447,068	7,087,775
2. Reinsurance income	1,663,836	1,447,544	2,110,488	1,770,870
3. Expenses recovered	313,212	272,496	347,995	291,996
4. Interest income	154,232	134,182	153,433	128,743
5. Dividend income	85,527	74,409	29,097	24,415
6. Investment income from financial instruments	16,288	14,171	108,275	90,851
7. Other operating revenues	193,722	168,539	104,638	87,800
Ⅱ. Operating expenses	**10,712,020**	**9,319,501**	**11,108,734**	**9,321,126**
1. Insurance claims and benefits expenses	6,314,946	5,494,028	6,769,933	5,680,522
2. Reinsurance expenses	2,427,773	2,112,172	2,546,996	2,137,136
3. Provision for insurance contract liabilities	584,552	508,563	238,839	200,405
4. Operating and administrative expenses	1,135,275	987,694	1,209,348	1,014,741
5. Claim handling expenses	97,626	84,935	124,927	104,824
6. Asset management expenses	5,385	4,685	4,843	4,064
7. Interest expenses	226	197	265	222
8. Investment expenses from financial instruments	60,320	52,479	47,476	39,836
9. Other operating expenses	85,917	74,748	166,106	139,376
Ⅲ. Operating income	**203,517**	**177,060**	**192,259**	**161,324**
Ⅳ. Non-operating income	**545**	**474**	**995**	**835**
Ⅴ. Non-operating expenses	**3,497**	**3,042**	**3,001**	**2,518**
Ⅵ. Income before income taxes	**200,565**	**174,492**	**190,252**	**159,641**
Ⅶ. Income tax expenses	**47,218**	**41,080**	**48,201**	**40,445**
Ⅷ. Net income	**153,347**	**133,412**	**142,052**	**119,196**
Ⅸ. Other comprehensive income (loss)	**(29,729)**	**(25,864)**	**21,537**	**18,071**
Ⅹ. Total comprehensive income	**123,618**	**107,548**	**163,589**	**137,267**

Note: For the B/S section, Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,197.1 per USD 1 for FY 2021 and KRW 1,098.6 for FY 2020. For the I/S section, the applicable exchange rate was KRW 1,149.42 per USD 1 for FY 2021 and KRW 1,191.78 for FY 2020.

＊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, 2021 and 2020

(Unit: KRW million)

	Capital stock	Capital surplus	Hybrid equity security	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
As at January 1, 2020	60,185	176,375	229,439	(60,579)	201,901	1,848,693	2,456,014
Cash dividends	-	-	-	-	-	(57,435)	(57,435)
Acquisition of treasury stocks	-	-	-	(96,914)	-	-	(96,914)
Dividends of hybrid equity security	-	-	-	-	-	(9,325)	(9,325)
Redemption and issuance of 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)
Total comprehensive income	-	-	-	-	21,537	142,052	163,589
As at December 31, 2020	60,185	176,375	229,439	(134,066)	223,438	1,900,558	2,455,929
As at January 1, 2021	60,185	176,375	229,439	(134,066)	223,438	1,900,558	2,455,929
Cash dividends	-	-	-	-	-	(46,021)	(46,021)
Dividends of hybrid equity security	-	-	-	-	-	(7,820)	(7,820)
Net income	-	-	-	-	-	153,347	153,347
Loss on valuation of available-for-sale financial assets	-	-	-	-	(57,162)	-	(57,162)
Exchange difference on translating foreign operations	-	-	-	-	23,388	-	23,388
Loss on valuation of derivative instruments designated as cash flow hedges	-	-	-	-	(2,592)	-	(2,592)
Gain on remeasurement of the net defined benefit liabilities	-	-	-	-	6,637	-	6,637
Total comprehensive income	-	-	-	-	(29,729)	153,347	123,618
As at December 31, 2021	60,185	176,375	229,439	(134,066)	193,710	2,000,064	2,525,706

Consolidated Statements of Changes in Equity (USD)

For the years ended December 31, 2021 and 2020

(Unit: USD thousand)

	Capital stock	Capital surplus	Hybrid equity security	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
As at January 1, 2020	50,276	147,335	191,662	(50,605)	168,658	1,544,310	2,051,636
Cash dividends	-	-	-	-	-	(47,978)	(47,978)
Acquisition of treasury stocks	-	-	-	(80,957)	-	-	(80,957)
Dividends of hybrid equity security	-	-	-	-	-	(7,790)	(7,790)
Redemption and issuance of hybrid equity security	-	-	-	19,570	-	(19,570)	-
Net income	-	-	-	-	-	118,663	118,663
Gain on valuation of available-for-sale financial assets	-	-	-	-	26,662	-	26,662
Exchange difference on translating foreign operations	-	-	-	-	(4,948)	-	(4,948)
Gain on valuation of derivative instruments designated as cash flow hedges	-	-	-	-	2,587	-	2,587
Loss on remeasurement of the net defined benefit liabilities	-	-	-	-	(6,310)	-	(6,310)
Total comprehensive income	-	-	-	-	17,991	118,663	136,654
As at December 31, 2020	50,276	147,335	191,662	(111,992)	186,649	1,587,635	2,051,565
As at January 1, 2021	50,276	147,335	191,662	(111,992)	186,649	1,587,635	2,051,565
Cash dividends	-	-	-	-	-	(38,444)	(38,444)
Dividends of hybrid equity security	-	-	-	-	-	(6,532)	(6,532)
Net income	-	-	-	-	-	128,099	128,099
Loss on valuation of available-for-sale financial assets	-	-	-	-	(47,750)	-	(47,750)
Exchange difference on translating foreign operations	-	-	-	-	19,537	-	19,537
Loss on valuation of derivative instruments designated as cash flow hedges	-	-	-	-	(2,165)	-	(2,165)
Gain on remeasurement of the net defined benefit liabilities	-	-	-	-	5,544	-	5,544
Total comprehensive income	-	-	-	-	(24,834)	128,099	103,265
As at December 31, 2021	50,276	147,335	191,662	(111,992)	161,815	1,670,758	2,109,853

Note: Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,098.60 per USD 1.

Consolidated Statements of Cash Flows

For the years ended December 31, 2021 and 2020

(Units: KRW million, USD thousand)

	FY 2021 (KRW)	FY 2021 (USD)	FY 2020 (KRW)	FY 2020 (USD)
Ⅰ. Cash flows from operating activities	**637,946**	**532,910**	**517,496**	**471,052**
1. Income before income taxes	153,347	128,099	142,052	129,303
2. Cash generated from operations	295,160	246,563	190,378	173,291
3. Receipt of interest	159,566	133,294	161,898	147,368
4. Payment of interest	(318)	(266)	(352)	(320)
5. Receipt of dividends	85,526	71,444	29,097	26,486
6. Refund(payment) of income taxes	(55,335)	(46,224)	(5,577)	(5,076)
Ⅱ. Cash flows from investing activities	**(573,836)**	**(479,355)**	**(234,510)**	**(213,462)**
1. Cash inflows	848,182	708,531	1,412,784	1,285,986
2. Cash outflows	(1,422,018)	(1,187,886)	(1,647,294)	(1,499,448)
Ⅲ. Cash flows from financing activities	**(56,881)**	**(47,515)**	**(168,449)**	**(153,330)**
1. Cash inflows	117	98	237	216
2. Cash outflows	(56,998)	(47,613)	(168,686)	(153,546)
Ⅳ. Net increase(decrease) in cash and cash equivalents (Ⅰ+Ⅱ+Ⅲ)	**7,229**	**6,039**	**114,538**	**104,259**
Ⅴ. Effects of changes in foreign exchange rates on cash and cash equivalents	**110**	**92**	**(3,046)**	**(2,773)**
Ⅵ. Cash and cash equivalents at the beginning of the year	**471,608**	**393,959**	**360,117**	**327,796**
Ⅶ. Cash and cash equivalents at the end of year	**478,947**	**400,089**	**471,608**	**429,281**

Note: For the B/S section, Korean won amounts have been converted into the U.S. dollar based on the exchange rate of KRW 1,197.1 per USD 1 for FY 2021 and KRW 1,098.6 for FY 2020. For the I/S section, the applicable exchange rate was KRW 1,149.42 per USD 1 for FY 2021 and KRW 1,191.78 for FY 2020.

✻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 Korean International Financial Reporting Standards ("K-IFRS") as 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") or 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 million, except when otherwise indicated.

The Group has changed the classification of some accounts in the prior year’s consolidated financial statements to be consistent with that in the current year’s 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 or loss.

(3) Foreign currency transactions

When preparing 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 1,197.10 to USD 1, the telegraphic transfer selling rate of exchange as at December 31, 2021. The profit and loss account is translated at KRW 1,149.42 to USD 1, the average exchange rate of the period.

3. Cash and cash equivalents

Cash and cash equivalents as at December 31, 2021 are as follows:

(Units: KRW million, USD thousand)

	FY 2021 (KRW)	FY 2021 (USD)
Cash on hand	1	1
Short-term bank deposits	478,946	400,088
Total	**478,947**	**400,089**

4. Financial assets

Carrying value and fair value of financial assets as at December 31, 2021 are as follows:

(Units: KRW million, USD thousand)

	Carrying value		Fair value	
	(KRW)	(USD)	(KRW)	(USD)
Deposits	214,892	179,510	214,892	179,510
Financial assets at FVTPL	227,940	190,410	227,940	190,410
Available-for-sale financial assets	4,996,863	4,174,140	4,996,863	4,174,140
Derivative financial assets designated as hedges	150	125	150	125
Loans	1,078,540	900,961	1,073,988	897,158
Receivables	3,088,384	2,579,888	3,088,392	2,579,895
Total	**9,606,769**	**8,025,034**	**9,602,225**	**8,021,239**

5. Deposits

Deposits as at December 31, 2021 are as follows:

(Units: KRW million, USD thousand)

	FY 2021(KRW)	FY 2021(USD)
Term deposits	-	-
Overseas deposits	164,629	137,523
Other deposits	50,263	41,987
Total	**214,892**	**179,510**

6. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss as at December 31, 2021 are as follows:

(Units: KRW million, USD thousand)

	FY 2021(KRW)	FY 2021(USD)
Stock	-	-
Beneficiary certificates	219,253	183,152
Securities in foreign currencies	8,687	7,258
Total	**227,940**	**190,410**

7. Available-for-sale financial assets

Available-for-sale financial assets as at December 31, 2021 are as follows:

(Units: KRW million, USD thousand)

	FY 2021(KRW)	FY 2021(USD)
Stock	60,666	50,677
Equity investment	141,039	117,817
Government and public bonds	185,508	154,964
Special bonds	191,250	159,761
Financial bonds	295,535	246,876
Corporate bonds	1,475,363	1,232,448
Beneficiary certificates	847,255	707,756
Securities in foreign currencies	1,799,678	1,503,365
Others	569	476
Total	**4,996,863**	**4,174,140**

8. Loans and receivables

Loans and receivables as at December 31, 2021 are as follows:

(Units: KRW million, USD thousand)

	FY 2021(KRW)	FY 2021(USD)
Loans		
Loans secured by securities	486,896	406,730
Loans secured by real estate	155,700	130,064
Credit loans	1,565	1,307
Guaranteed loans	1,396	1,166
Other loans	441,786	369,047
Subtotal	**1,087,343**	**908,314**
(Allowance for possible loan losses)	(2,567)	(2,144)
(Present value discount)	(144)	(120)
(Deferred loan fee and costs)	(6,092)	(5,089)
Receivables		
Insurance receivables	3,084,876	2,576,958
Accounts receivables	777	649
Accrued income	44,569	37,231
Guarantee deposits	1,055	881
Subtotal	**3,131,277**	**2,615,719**
(Allowance for doubtful receivables)	(42,886)	(35,825)
(Present value discount)	(7)	(6)
Total	**4,166,924**	**3,480,849**

9. Other non-financial assets

Other non-financial assets as at December 31, 2021 are as follows:

(Units: KRW million, USD thousand)

	FY 2021(KRW)	FY 2021(USD)
Reinsurance assets	2,647,572	2,211,655
Compensation receivables	87,188	72,833
Current income tax assets	13,966	11,667
Deferred tax assets	9,741	8,137
Prepaid expenses	7,128	5,954
Advanced payments	46,180	38,577
Right of use assets	6,864	5,733
Total	2,818,639	2,354,556

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, 2021 are as follows:

(1) Reserve for outstanding claims

(Units: KRW million, USD thousand)

	FY 2021(KRW)	FY 2021(USD)
Fire insurance	53,744	44,895
Marine insurance	176,036	147,052
Motor insurance	165,566	138,306
Surety insurance	41,966	35,056
Engineering insurance	177,074	147,919
Workers' compensation insurance	20,400	17,041
Liability insurance	280,600	234,400
Personal accident insurance	64,634	53,992
Comprehensive insurance	637,616	532,634
Other casualty insurance	334,320	279,275
Overseas inward insurance	2,330,342	1,946,656
Long-term insurance	942,097	786,983
Personal annuity	546	456
Total	5,224,941	4,364,665

Notes to Consolidated Financial Statements

(2) Unearned premium reserve

(Units: KRW million, USD thousand)

	FY 2021 (KRW)	FY 2021 (USD)
Fire insurance	66,571	55,610
Marine insurance	82,779	69,150
Motor insurance	259,612	216,867
Surety insurance	286,362	239,213
Engineering insurance	179,960	150,330
Workers' compensation insurance	3,413	2,851
Liability insurance	134,597	112,436
Personal accident insurance	56,810	47,456
Comprehensive insurance	206,539	172,533
Other casualty insurance	222,886	186,188
Overseas inward insurance	653,149	545,611
Total	**2,152,678**	**1,798,245**

11. Equity

(1) Capital stock

Details of capital stock as at December 31, 2021 are as follows

	FY 2021 (KRW)	FY 2021 (USD)
Number of common shares authorized (shares)	320,000,000	320,000,000
Par value (KRW, USD)	500	0.4
Number of common shares issued and outstanding (shares)	120,369,116	120,369,116
Capital stock (KRW million, USD thousand)	60,185	50,276

(2) Capital surplus

Capital surplus consists of the following as at December 31, 2021

(Units: KRW million, USD thousand)

	FY 2021 (KRW)	FY 2021 (USD)
Paid-in capital in excess of par value	103,729	86,650
Other capital reserve	72,646	60,685
Total	**176,375**	**147,335**

(3) Capital adjustments

Capital adjustments consist of the following as at December 31, 2021

(Units: KRW million, USD thousand)

	FY 2021 (KRW)	FY 2021 (USD)
Treasury stock	(134,066)	(111,992)
Total	**(134,066)**	**(111,992)**

(4) Accumulated other comprehensive income

Accumulated other comprehensive income consists of the following as at December 31, 2021

(Units: KRW million, USD thousand)

	FY 2021 (KRW)	FY 2021 (USD)
Gain on valuation of available-for-sale financial assets	110,936	92,671
Asset revaluation surplus	68,979	57,622
Exchange difference on translating foreign operations	17,494	14,613
Loss on valuation of derivative instruments designated as cash flow hedges	(600)	(501)
Re-measurement of the net defined benefit liabilities	(3,099)	(2,589)
Total	**193,710**	**161,815**

(5) Retained earnings

Retained earnings as at December 31, 2021 are as follows:

(Units: KRW million, USD thousand)

	FY 2021 (KRW)	FY 2021 (USD)
Legal reserve	30,092	25,137
Bad debt reserve	18,228	15,227
Catastrophe reserve	1,380,513	1,153,214
Business rationalization reserve	2,033	1,698
Voluntary reserve	435,244	363,582
Unappropriated retained earnings	133,954	111,899
Total	**2,000,064**	**1,670,758**

(6) Hybrid equity security

Hybrid equity security as at December 31, 2021 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 10th 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.

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 statements of financial position as of December 31, 2021, and December 31, 2020, respectively, and the related consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows, all expressed in Korean won, for the years 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, 2021, and December 31, 2020, respectively, and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

Basis for Audit Opinion

We conducted our audits in accordance with the Korean Standards on Auditing ("KSAs"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audits 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 audits 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 audits of the consolidated financial statements for the year ended December 31, 2021. 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 as of December 31, 2021, the Group shall set aside a reserve for outstanding claims for amounts that have not yet been paid in relation to amounts that are to be paid, or estimated to be paid, for contracts that caused the reason for payment, i.e., insurance claims. 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, 2021, is ₩5,224,941 million, accounting for 71% of the total insurance contract liability of ₩7,377,619 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 audits 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 the reserve for outstanding claims.
- Understanding and assessing systems related to the calculation of the 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 the 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.

Auditors' Responsibilities for the Audits 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 audits. 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 audits 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 of the Group regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

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 auditors' 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

Deloitte Anjin LLC
March 17, 2022

Notice to Readers

This report is effective as of March 17, 2022, 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.