

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

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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

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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

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(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 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.