

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 are not offset against the relevant expense or income resulting from the relevant insurance contracts. The Group considers whether the reinsurance assets are impaired at each reporting date and if the reinsurance assets are impaired the Group reduces its carrying amount and accordingly, recognizes impairment loss in profit or loss.

(5) Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and accumulated impairment in value. Such cost includes an expenditure which has directly occurred for the acquisition of the asset. The initial and subsequent costs are recognized as an asset when it is probable that future economic benefits associated with the asset will flow to the Group and the costs of the asset can be measured reliably. The other maintenances and repairs are expensed in the year in which they are incurred and the carrying amount of certain parts that are replaced is derecognized. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the related asset if the recognition criteria for a provision are met.

(6) Investment properties

Investment properties are recognized as assets only if it is probable that future economic benefits associated with the assets will flow to the Group and the costs of the assets can be measured reliably. Investment properties are initially recognized at cost and transaction costs are included in the initial measurement. The investment properties are also subsequently measured at cost.

Investment properties are derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising from the derecognition of the assets calculated as the difference between the net disposal proceeds and the carrying amount of the assets is recognized as profit or loss in the consolidated statement of 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 Statement Indicated in Foreign Currencies.

Assets and liabilities, including equity indicated in the consolidated financial statements, are translated into the U.S. Dollar at the rate of KRW 1,169.10 to USD 1, the telegraphic transfer selling rate of exchange as at December 31, 2019. The profit and loss account is translated at KRW 1,176.52 to USD 1, the average exchange rate of the period.

3. Cash and Cash Equivalents

Cash and cash equivalents as at December 31, 2019 are as follows:

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Cash on hand	2	1
Short-term bank deposits	360,115	308,028
Total	360,117	308,029

4. Financial Assets

Carrying value and fair value of financial assets as at December 31, 2019 are as follows:

(Unit: KRW million, USD thousand)

	Carrying value		Fair value	
	(KRW)	(USD)	(KRW)	(USD)
Deposits	224,626	192,136	224,626	192,136
Financial assets at FVTPL	308,956	264,268	308,956	264,268
Available-for-sale financial assets	4,124,023	3,527,519	4,124,023	3,527,519
Held-to-maturity financial assets	-	-	-	-
Derivative financial assets designated as hedges	7,186	6,147	7,186	6,147
Loans	1,014,286	867,578	1,053,474	901,098
Receivables	3,263,740	2,791,669	3,263,716	2,791,648
Total	8,942,817	7,649,317	8,981,981	7,682,817

5. Deposits

Deposits as at December 31, 2019 are as follows:

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Term deposits	33,000	28,227
Overseas deposits	75,145	64,276
Other deposits	116,481	99,633
Total	224,626	192,136

6. Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss as at December 31, 2019 are as follows:

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Stock	-	-
Beneficiary certificates	301,281	257,703
Derivative financial assets held-for-trading	-	-
Securities in foreign currencies	7,675	6,565
Total	308,956	264,268

7. Available-for-Sale Financial Assets

Available-for-sale financial assets as at December 31, 2019 are as follows:

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Stock	36,405	31,139
Equity investment	119,968	102,616
Government and public bonds	625,076	534,664
Special bonds	391,565	334,929
Financial bonds	61,511	52,614
Corporate bonds	751,235	642,575
Beneficiary certificates	611,647	523,178
Securities in foreign currencies	1,525,908	1,305,199
Others	708	605
Total	4,124,023	3,527,519

8. Held-to-Maturity Financial Assets

Held-to-maturity financial assets as at December 31, 2019 are as follows:

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Government and public bonds	-	-
Special bonds	-	-
Corporate bonds	-	-
Securities in foreign currencies	-	-
Total	-	-

* For efficient asset management, the Group reclassified its Held-to-maturity financial assets as Available-for-sale financial assets for the year ended October 31, 2019

9. Loans and Receivables

Loans and receivables as at December 31, 2019 are as follows:

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Loans		
Loans secured by securities	448,629	383,739
Loans secured by real-estate	322,567	275,911
Credit loans	1,017	870
Guaranteed loans	38,283	32,746
Other loans	209,282	179,011
Subtotal	1,019,778	872,277
(Allowance for possible loan losses)	(3,500)	(2,994)
(Present value discount)	(262)	(225)
(Deferred loan fee and costs)	(1,730)	(1,480)
Receivables		
Insurance receivables	3,242,991	2,773,921
Accounts receivables	601	514
Accrued income	52,399	44,820
Guarantee deposits	950	813
Subtotal	3,296,941	2,820,068
(Allowance for doubtful receivables)	(33,182)	(28,383)
(Present value discount)	(19)	(16)
Total	4,278,026	3,659,247

10. Other Non-Financial Assets

Other non-financial assets as at December 31, 2019 are as follows:

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Reinsurance assets	2,077,968	1,777,409
Compensation receivables	98,800	84,510
Current income tax assets	12,054	10,310
Deferred tax assets	173	148
Prepaid expenses	659	564
Advanced payments	23,123	19,778
Right of use assets	9,034	7,727
Total	2,221,811	1,900,446

11. Insurance Contract Liabilities

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

Insurance contract liabilities as at December 31, 2019 are as follows:

(1) Reserve for outstanding claims

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Fire insurance	39,205	33,534
Marine insurance	248,332	212,413
Automobile insurance	161,155	137,845
Surety insurance	28,345	24,245
Engineering insurance	186,741	159,731
Workers' compensation insurance	27,183	23,251
Liability insurance	202,582	173,280
Personal accident insurance	78,412	67,070
Comprehensive insurance	144,413	123,525
Other casualty insurance	251,266	214,923
Overseas inward insurance	1,832,452	1,567,405
Long-term insurance	803,902	687,625
Personal annuity	397	340
Total	4,004,385	3,425,187

(2) Unearned premium reserve

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Fire insurance	50,824	43,473
Marine insurance	65,632	56,139
Automobile insurance	303,818	259,873
Surety insurance	243,880	208,605
Engineering insurance	144,206	123,348
Workers' compensation insurance	6,630	5,671
Liability insurance	127,037	108,662
Personal accident insurance	83,286	71,239
Comprehensive insurance	176,129	150,653
Other casualty insurance	182,825	156,381
Overseas inward insurance	585,992	501,233
	1,970,259	1,685,277
Total	5,974,644	5,110,464

12. Equity**(1) Capital stock**

Details of capital stock as at December 31, 2019 are as follows:

	FY 2019 (KRW)	FY 2019 (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	51,480

(2) Capital surplus

Capital surplus consists of the following as at December 31, 2019

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Paid-in capital in excess of par value	103,729	88,726
Other capital reserve	72,646	62,138
Total	176,375	150,864

(3) Capital adjustments

Capital adjustments consist of the following as at December 31, 2019

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Treasury stock	(37,152)	(31,778)
Other capital adjustment	(23,427)	(20,038)
Total	(60,579)	(51,817)

(4) Accumulated other comprehensive income

Accumulated other comprehensive income consists of the following as at December 31, 2019

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Gain on valuation of available-for-sale financial assets	136,181	116,484
Loss on valuation of held-to-maturity financial assets	-	-
Asset revaluation surplus	68,979	59,002
Exchange difference on translating foreign operations	29	25
Loss on valuation of derivative instruments designated as cash flow hedges	(1,104)	(944)
Re-measurement of the net defined benefit liabilities	(2,183)	(1,867)
Total	201,902	172,699

(5) Retained earnings

Retained earnings as at December 31, 2019 are as follows:

(Unit: KRW million, USD thousand)

	FY 2019 (KRW)	FY 2019 (USD)
Legal reserve	30,092	25,739
Bad debt reserve	19,385	16,581
Catastrophe reserve	1,207,454	1,032,806
Business rationalization reserve	2,033	1,739
Voluntary reserve	412,429	352,775
Unappropriated retained earnings	177,300	151,655
Total	1,848,693	1,581,296

(6) Hybrid equity security

Hybrid equity security as at December 31, 2019 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) Hybrid equity securities have maturities, but they have capital requirements, such as that the Group's right to continue extending maturities.

(2) The Group would not pay interest if it decides not to pay dividend on the common shares.