

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 Korea 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 financial statements. In the event of any differences in interpreting the 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.

For the convenience of the reader, the consolidated financial statements have been condensed, restructured, and translated from Korean to English.

The Group has changed the classification of some accounts in the prior year financial statements to be consistent with that in the current year financial statements for the purpose of 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 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 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 1,081.80 to USD 1, the telegraphic transfer selling rate of exchange as at December 31, 2017. The profit and loss account is translated at KRW 1,133.20 to USD 1, the average exchange rate of the period.

3. Cash and cash equivalents

Cash and cash equivalents as at December 31, 2017 are as follows:

	(Units: KRW million, USD thousand)	
	FY 2017 (KRW)	FY 2017 (USD)
Cash on hand	2	2
Short-term bank deposits	129,263	119,489
Total	129,265	119,491

4. Financial assets

Carrying value and fair value of financial assets as at December 31, 2017 are as follows:

(Units: KRW million, USD thousand)

	Carrying value		Fair value	
	KRW	USD	KRW	USD
Deposits	298,731	276,143	298,731	276,143
Financial assets at FVTPL	697,258	644,535	697,258	644,535
Available-for-sale financial assets	2,444,769	2,259,908	2,444,769	2,259,908
Held-to-maturity financial assets	1,199,720	1,109,004	1,216,921	1,124,904
Derivative financial assets designated as hedges	27,698	25,604	27,698	25,604
Loans	668,009	617,498	684,654	632,884
Receivables	2,506,785	2,317,235	2,506,676	2,317,134
Total	7,842,970	7,249,927	7,876,707	7,281,112

5. Deposits

Deposits as at December 31, 2017 are as follows:

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Term deposits	60,500	55,925
Overseas deposits	99,880	92,328
Other deposits	138,351	127,890
Total	298,731	276,143

6. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss as at December 31, 2017 are as follows:

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Stock	24,667	22,802
Beneficiary certificates	666,221	615,845
Securities in foreign currencies	6,370	5,888
Total	697,258	644,535

7. Available-for-sale financial assets

Available-for-sale financial assets as at December 31, 2017 are as follows:

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Stock	56,946	52,640
Equity investment	112,905	104,368
Government and public bonds	10,036	9,277
Special bonds	640,268	591,854
Corporate bonds	836,948	773,662
Beneficiary certificates	140,967	130,308
Securities in foreign currencies	642,284	593,718
Others	4,415	4,081
Total	2,444,769	2,259,908

8. Held-to-maturity financial assets

Held-to-maturity financial assets as at December 31, 2017 are as follows:

	(Units: KRW million, USD thousand)	
	FY 2017 (KRW)	FY 2017 (USD)
Government and public bonds	530,327	490,226
Special bonds	19,942	18,434
Securities in foreign currencies	649,451	600,344
Total	1,199,720	1,109,004

9. Loans and receivables

Loans and receivables as at December 31, 2017 are as follows:

	(Units: KRW million, USD thousand)	
	FY 2017 (KRW)	FY 2017 (USD)
Loans		
Loans secured by securities	230,000	212,609
Loans secured by real-estate	321,714	297,388
Credit loans	763	705
Guaranteed loans	79,124	73,141
Other loans	42,934	39,687
Subtotal	674,535	623,530
(Allowance for possible loan losses)	(3,565)	(3,295)
(Present value discount)	(445)	(411)
(Deferred loan fee and costs)	(2,516)	(2,326)
Receivables		
Insurance receivables	2,484,994	2,297,092
Accounts receivables	399	369
Accrued income	41,951	38,779
Guarantee deposits	732	677
Subtotal	2,528,076	2,336,917
(Allowance for doubtful receivables)	(21,285)	(19,676)
(Present value discount)	(6)	(6)
Total	3,174,794	2,934,733

10. Other non-financial assets

Other non-financial assets as at December 31, 2017 are as follows:

	(Units: KRW million, USD thousand)	
	FY 2017 (KRW)	FY 2017 (USD)
Reinsurance assets	1,768,110	1,634,415
Compensation receivables	65,168	60,240
Deferred income tax assets	303	280
Prepaid expenses	5,927	5,479
Advance payments	46,013	42,534
Total	1,885,521	1,742,948

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, 2017 are as follows:

(1) Reserve for outstanding claims

	(Units: KRW million, USD thousand)	
	FY 2017 (KRW)	FY 2017 (USD)
Fire insurance	34,082	31,505
Marine insurance	339,049	313,412
Automobile insurance	146,451	135,377
Surety insurance	15,080	13,940
Engineering insurance	171,443	158,479
Workers' compensation insurance	26,290	24,302
Liability insurance	177,525	164,101
Personal accident insurance	87,948	81,298
Comprehensive insurance	114,685	106,013
Other casualty insurance	206,832	191,192
Overseas inward insurance	1,381,185	1,276,748
Long-term insurance	615,513	568,971
Personal annuity	1,028	950
Total	3,317,111	3,066,288

(2) Unearned premium reserve

	(Units: KRW million, USD thousand)	
	FY 2017 (KRW)	FY 2017 (USD)
Fire insurance	80,454	74,370
Marine insurance	88,572	81,875
Automobile insurance	302,551	279,674
Surety insurance	129,173	119,406
Engineering insurance	150,426	139,052
Workers' compensation insurance	8,520	7,876
Liability insurance	133,821	123,702
Personal accident insurance	102,888	95,108
Comprehensive insurance	182,288	168,504
Other casualty insurance	151,104	139,678
Overseas inward insurance	510,848	472,221
Total	1,840,645	1,701,466

12. Equity

(1) Capital stock

Details of capital stock as at December 31, 2017 are as follows:

	FY 2017	FY 2017
Number of common shares authorized (shares)	320,000,000	320,000,000
Par value (KRW, USD)	500	0.5
Number of common shares issued and outstanding (shares)	120,369,116	120,369,116
Capital stock (KRW million, USD thousand)	60,185	55,634

(2) Capital surplus

Capital surplus consists of the following as at December 31, 2017 :

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Paid-in capital in excess of par value	103,729	95,886
Other capital reserve	72,646	67,152
Total	176,375	163,038

(3) Capital adjustments

Capital adjustments consist of the following as at December 31, 2017 :

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Treasury stock	(35,311)	(32,641)

(4) Accumulated other comprehensive income

Accumulated other comprehensive income consists of the following as at December 31, 2017 :

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Gain on valuation of available-for-sale financial assets	52,966	48,961
Loss on valuation of held-to-maturity financial assets	(3,647)	(3,371)
Asset revaluation surplus	68,998	63,781
Exchange difference on translating foreign operations	(11,827)	(10,933)
Gain on valuation of derivative instruments designated as cash flow hedges	15	14
Re-measurement of the net defined benefit liabilities	(623)	(576)
Total	105,882	97,876

(5) Retained earnings

Retained earnings as at December 31, 2017 are as follows:

(Units: KRW million, USD thousand)

	FY 2017 (KRW)	FY 2017 (USD)
Legal reserve	30,092	27,817
Bad debt reserve	19,082	17,639
Catastrophe reserve	1,003,843	927,938
Business rationalization reserve	2,033	1,879
Voluntary reserve	467,339	432,001
Unappropriated retained earnings	121,211	112,046
Total	1,643,600	1,519,320

(6) Hybrid equity security

Hybrid equity security as at December 31, 2017 is as follows:

	Description ¹⁾
Date issued	October 21, 2014
Amounts issued	USD 200,000,000
Maturity ²⁾	30 years, Revolving
Distribution term	4.50% per annum on a face value basis (redetermination of interest rate every 5 years, Step up 100bps once at 10 th year)

(1) The maturity of the security becomes due in 30 years, but it could be early repaid in every 5 years in case of execution of issuer's option. Therefore, the Group recorded the security as an equity as it is considered to meet the criteria to be classified as an equity.

(2) The Group can extend the maturity of the security on the same conditions. In addition, the Group would not pay interest if it decides not to pay dividend on the common shares.