

# **MERITZ FINANCIAL GROUP INC.**

Separate financial statements  
for the years ended December 31, 2022, and 2021  
With Independent Auditors' report

# Contents

	<b>Page</b>
Independent Auditors' Report	1
Separate Statements of Financial Position	5
Separate Statements of Comprehensive Income	6
Separate Statements of Changes in Equity	7
Separate Statements of Cash Flows	8
Notes to the Separate Financial Statements	9
Independent Auditors' Report on Internal Control over Financial Reporting	61
Internal Control over Financial Reporting Operating Status Report	63



## **Independent Auditors' Report**

Based on a report originally issued in Korean

### **The Shareholders and Board of Directors Meritz Financial Group Inc.**

#### ***Opinion***

We have audited the separate financial statements of Meritz Financial Group Inc. (the "Company"), which comprise the separate statements of financial position as of December 31, 2022, and 2021, and the separate statements of comprehensive income, the separate statements of changes in equity and the separate statements of cash flows for the years then ended, and notes to the separate financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and 2021 and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

We also have audited, in accordance with Korean Standards on Auditing ("KSAs"), the Company's Internal Control over Financial Reporting ("ICFR") as of December 31, 2022 based on the criteria established in Conceptual Framework for Designing and Operating Internal Control over Financial Reporting issued by the Operating Committee of Internal Control over Financial Reporting in the Republic of Korea, and our report dated March 9, 2023 expressed an unmodified opinion on the effectiveness of the Company's internal control over Financial reporting.

#### ***Basis for opinion***

We conducted our audit in accordance with KSAs. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the audit of the separate financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the separate financial statements in 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 opinion.

#### ***Emphasis of Matter***

As a matter that does not affect our audit opinion, we draw attention to Note 30 to the separate financial statements. As described in Note 30 to the separate financial statements, during the fiscal year, the Company resolved to conduct a comprehensive stock exchange and transfer with its subsidiaries Meritz Fire & Marine Insurance Co., Ltd. and Meritz Securities Co., Ltd. Following the transaction after the reporting period, Meritz Fire & Marine Insurance Co., Ltd. was incorporated as a wholly owned subsidiary and delisted, and Meritz Securities Co., Ltd. is also scheduled to be incorporated as a wholly owned subsidiary and delisted. Our opinion is not modified in respect of this matter.

#### ***Key audit matter***

We have determined that there are no key audit matters to communicate in our report.

#### ***Responsibilities of management and those charged with governance for the separate financial statements***

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### ***Auditor's responsibilities for the audit of the separate financial statements***

Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements.

As part of an audit in accordance with KSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate 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 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 audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used in the preparation of the separate financial statements and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of 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 Company'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 separate 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 separate financial statements as of and for the year ended December 31, 2022 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 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 *Jae-Beom Choi*.

*KPMG Samjong Accounting Corp.*

KPMG Samjong Accounting Corp.

Seoul, Korea

March 9, 2023

This report is effective as of March 9, 2023, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

# **Meritz Financial Group Inc.**

Separate financial statements  
For the years ended December 31, 2022 and 2021

“The accompanying separate financial statements, including all footnotes and disclosures, have been prepared by, and are the responsibility of, the Company.”

Kim, Yong Beom  
Chief Executive Officer  
Meritz Financial Group Inc.

**Meritz Financial Group Inc.**  
**Separate Statements of Financial Position**  
**As of December 31, 2022 and 2021**

(In won)

	<b>Notes</b>	<b>2022</b>	<b>2021</b>
<b>Assets</b>			
Cash and due from banks	5, 25, 28, 29	₩ 196,395,010,025	₩ 82,753,222,438
Financial assets at fair value through profit or loss(FVTPL)	6, 28, 29	349,453,748,275	211,326,504,762
Financial assets at fair value through other comprehensive income (FVOCI)	7, 25, 28	305,607,650,000	200,192,373,500
Loans and receivables at amortized cost	8, 25, 28, 29	6,678,299,798	20,360,763,158
Property and equipment	9	1,901,587,007	2,470,064,684
Intangible assets	10	9,081,074,321	9,075,114,321
Investments in subsidiaries	11	1,789,377,416,737	1,801,508,409,740
Deferred tax assets	17	11,787,647,035	-
Other assets	12, 14	1,029,037,936	281,819,547
Assets held for sale	11	12,204,712,003	-
<b>Total assets</b>		<b><u>₩ 2,683,516,183,137</u></b>	<b><u>₩ 2,327,968,272,150</u></b>
<b>Liabilities</b>			
Borrowings	13, 27, 28, 29	₩ 1,027,471,998,520	₩ 678,608,715,512
Deferred tax liabilities	17	-	580,277,179
Current tax liabilities	17	8,288,808,954	9,048,708,900
Net defined benefit liabilities	14	-	197,544,452
Provisions	15	189,851,290	187,027,181
Other liabilities	16, 25, 28, 29	31,476,264,890	37,867,836,855
<b>Total liabilities</b>		<b><u>1,067,426,923,654</u></b>	<b><u>726,490,110,079</u></b>
<b>Equity</b>			
Capital stock	18	71,442,909,000	71,442,909,000
Hybrid bonds	18	593,108,566,161	417,843,578,000
Capital surplus	18	58,374,334,913	658,187,473,331
Capital adjustments	18	(156,495,655,066)	(123,333,316,884)
Accumulated other comprehensive loss	18	(34,108,378,805)	(68,234,908)
Retained earnings	18	1,083,767,483,280	577,405,753,532
<b>Total equity</b>		<b><u>1,616,089,259,483</u></b>	<b><u>1,601,478,162,071</u></b>
<b>Total liabilities and equity</b>		<b><u>₩ 2,683,516,183,137</u></b>	<b><u>₩ 2,327,968,272,150</u></b>

See accompanying notes to the separate financial statements.

**Meritz Financial Group Inc.**  
**Separate Statements of Comprehensive Income**  
**For the years ended December 31, 2022 and 2021**

(In won)

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
<b>Operating income</b>			
Dividend income	19, 25, 28 ₩	88,725,117,282	₩ 195,622,537,062
Interest income	20, 25, 28	4,354,360,311	589,067,486
Commission income	25	54,537,081,377	53,922,447,273
Investment income from financial instruments	28	6,140,045,920	160,784,481
Other operating income	22, 25, 28	3,366,751,542	4,279,456,606
		<u>157,123,356,432</u>	<u>254,574,292,908</u>
<b>Operating expenses</b>			
Interest expense	20, 28	23,325,727,293	10,009,783,368
Commission fees		1,240,266,266	1,059,771,548
General and administrative expenses	21, 25	11,685,666,823	14,866,085,923
Other operating expense	22, 25, 28	203,400,000	509,000,000
		<u>36,455,060,382</u>	<u>26,444,640,839</u>
<b>Operating income</b>		<b><u>120,668,296,050</u></b>	<b><u>228,129,652,069</u></b>
<b>Non-operating income (loss), net</b>	23	<b>(164,219,536)</b>	<b>13,469,295</b>
<b>Income before income tax expenses</b>		<b><u>120,504,076,514</u></b>	<b><u>228,143,121,364</u></b>
<b>Income tax</b>	17	<b>12,434,412,835</b>	<b>8,341,925,088</b>
<b>Net income for the year</b>		<b><u>108,069,663,679</u></b>	<b><u>219,801,196,276</u></b>
<b>Other comprehensive income (loss)</b>			
Items that will not be reclassified subsequently to profit or loss:			
Gain on valuation of financial assets at FVTPL	7	(34,239,143,913)	145,819,113
Remeasurements of defined benefit plans	14	199,000,016	151,008,771
		<u>(34,040,143,897)</u>	<u>296,827,884</u>
<b>Total comprehensive income for the year</b>		<b><u>₩ 74,029,519,782</u></b>	<b><u>₩ 220,098,024,160</u></b>
<b>Earnings per share:</b>			
Basic earnings per share	24	₩ 671	₩ 1,607
Diluted earnings per share		667	1,599

See accompanying notes to the separate financial statements.

Meritz Financial Group Inc.  
Separate Statements of Changes in Equity  
For the years ended December 31, 2022 and 2021

(In won)

	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive loss	Retained earnings	Total equity
<b>Balance at January 1, 2021</b>	₩ 71,442,909,000	₩ 268,524,218,000	₩ 658,187,473,331	₩ 1,231,193,151	₩ (365,062,792)	₩ 489,295,360,791	₩ 1,488,316,091,481
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	-	219,801,196,276	219,801,196,276
Gain on valuation of FVOCI securities	-	-	-	-	145,819,113	-	145,819,113
Remeasurements of defined benefit plan	-	-	-	-	151,008,771	-	151,008,771
<b>Total comprehensive income (loss) for the year</b>	-	-	-	-	296,827,884	219,801,196,276	220,098,024,160
<b>Transactions with owners:</b>							
Stock option	-	-	-	(369,054,535)	-	-	(369,054,535)
Acquisition of treasury stock	-	-	-	(124,195,455,500)	-	-	(124,195,455,500)
Dividends	-	-	-	-	-	(118,463,061,600)	(118,463,061,600)
Issuance of hybrid bonds	-	149,319,360,000	-	-	-	-	149,319,360,000
Dividends to hybrid bonds	-	-	-	-	-	(13,227,741,935)	(13,227,741,935)
<b>Balance at December 31, 2021</b>	₩ 71,442,909,000	₩ 417,843,578,000	₩ 658,187,473,331	₩ (123,333,316,884)	₩ (68,234,908)	₩ 577,405,753,532	₩ 1,601,478,162,071
<b>Balance at January 1, 2022</b>	₩ 71,442,909,000	₩ 417,843,578,000	₩ 658,187,473,331	₩ (123,333,316,884)	₩ (68,234,908)	₩ 577,405,753,532	₩ 1,601,478,162,071
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	-	108,069,663,679	108,069,663,679
Gain on valuation of FVOCI securities	-	-	-	-	(34,239,143,913)	-	(34,239,143,913)
Remeasurements of defined benefit plan	-	-	-	-	199,000,016	-	199,000,016
<b>Total comprehensive income (loss) for the year</b>	-	-	-	-	(34,040,143,897)	108,069,663,679	74,029,519,782
<b>Transactions with owners:</b>							
Stock option	-	-	186,861,582	(186,861,582)	-	-	-
Acquisition of treasury stock	-	-	-	(182,890,217,700)	-	-	(182,890,217,700)
Retirement of treasury stock	-	-	-	149,841,022,100	-	(149,841,022,100)	-
Dividends	-	-	-	-	-	(26,406,266,670)	(26,406,266,670)
Issuance of hybrid bonds	-	175,264,988,161	-	-	-	-	175,264,988,161
Dividends to hybrid bonds	-	-	-	-	-	(25,460,645,161)	(25,460,645,161)
Transfer to retained earnings	-	-	(600,000,000,000)	-	-	600,000,000,000	-
Others	-	-	-	73,719,000	-	-	73,719,000
<b>Balance at December 31, 2022</b>	₩ 71,442,909,000	₩ 593,108,566,161	₩ 58,374,334,913	₩ (156,495,655,066)	₩ (34,108,378,805)	₩ 1,083,767,483,280	₩ 1,616,089,259,483

See accompanying notes to the separate financial statements.

**Meritz Financial Group Inc.**  
**Separate Statements of Cash Flows**  
**For the years ended December 31, 2022 and 2021**

(In won)

	Notes	2022	2021
<b>Cash flows operating activities</b>			
Income before income taxes	₩	120,504,076,514	₩ 228,143,121,364
Non-cash adjustment to reconcile income			
Before income taxes to net cash flows:			
Interest expenses		23,322,903,184	10,006,849,585
Provisions expenses		2,824,109	2,933,783
Retirement benefits		98,804,309	124,371,045
Depreciation		677,563,249	687,252,119
Loss on sales of tangible assets		75,000	-
Commission expenses		201,430,416	127,911,719
Loss on transactions of derivatives		203,400,000	509,000,000
Interest income		(4,354,360,311)	(589,067,486)
Gain on valuation of financial assets measured at FVTPL		(2,256,778,175)	(160,784,481)
Reversal of provisions		-	(12,970,562)
Gain on termination of lease		-	(285,784)
Gain on valuations of derivatives		-	(2,397,610,268)
Gain on transactions of derivatives		(3,056,194,106)	-
Amortization of trading profit / loss		-	(1,565,601,315)
Dividends income		(88,725,117,282)	(195,622,537,062)
		<u>(73,885,449,607)</u>	<u>(188,890,538,707)</u>
Changes in operating assets and liabilities:			
Financial assets at FVTPL		(144,533,133,064)	(200,000,000,000)
Loans		-	100,000,000
Trade receivables		13,732,963,497	14,580,741,835
Prepaid expenses		(152,329)	(47,795,536)
Advanced payments		(544,681,235)	(14,565,384,413)
Trade payables		(9,777,160,163)	6,624,403,348
Accrued expenses		277,893,522	(78,379,614)
Plan assets		(388,301,988)	-
Value added tax withheld		(4,062,710)	(6,395,990)
Other liabilities		(242,308,752)	143,815,441
		<u>(141,478,943,222)</u>	<u>(193,248,994,929)</u>
Interest received		1,700,592,904	582,252,485
Interest paid		(19,825,539,998)	(8,882,436,984)
Dividend received		86,540,431,260	193,743,624,160
Income tax paid		(13,021,567,720)	(9,688,682,360)
<b>Net cash flows provided by (used in) operating activities</b>		<u><b>(39,466,399,869)</b></u>	<u><b>21,758,345,029</b></u>
<b>Cash flows investing activities</b>			
Decrease in intangible assets		-	500,000,000
Settlement of derivatives received		27,801,864,567	14,070,999,337
Acquisition of financial assets measured at FVOCI		(150,000,000,000)	(200,000,000,000)
Increase in property and equipment		(3,564,182)	(51,216,118)
Settlement of derivatives paid		(13,636,950,180)	(9,609,643,584)
<b>Net cash used in investing activities</b>		<u><b>(135,838,649,795)</b></u>	<u><b>(195,089,860,365)</b></u>
<b>Cash flows financing activities</b>			
Return of issuance of bonds		37,120,430	29,001,290
Increase of borrowing		-	14,973,863,016
Issuance of corporate bonds		548,039,927,200	398,696,740,000
Issuance of hybrid bond		175,264,988,161	149,319,360,000
Repayment of borrowing		-	(15,000,000,000)
Repayment of corporate bonds		(200,000,000,000)	(100,000,000,000)
Dividends		(26,404,633,480)	(118,455,987,390)
Acquisition of treasury stock		(182,890,217,700)	(124,195,455,500)
Repayment of lease liabilities		(684,347,360)	(677,599,220)
Dividends to hybrid bond paid		(24,416,000,000)	(13,175,000,000)
<b>Net cash provided by financing activities</b>		<u><b>288,946,837,251</b></u>	<u><b>191,514,922,196</b></u>
<b>Net Increase in cash and cash equivalents</b>		<b>113,641,787,587</b>	<b>18,183,406,860</b>
<b>Cash and cash equivalents at the beginning of the year</b>	5	<u><b>82,750,222,438</b></u>	<u><b>64,566,815,578</b></u>
<b>Cash and cash equivalents at the end of the year</b>	5	<u><u><b>₩ 196,392,010,025</b></u></u>	<u><u><b>₩ 82,750,222,438</b></u></u>

See accompanying notes to the separate financial statements.

## 1. Company information

Meritz Financial Group Inc. (the "Company") was incorporated on March 25, 2011 as a result of the spin-off from Meritz Fire & Marine Insurance Co., Ltd to control and manage its subsidiaries. The Company listed its common shares on the Korea Exchange on May 13, 2011. The Company's headquarter is in Gangnam-gu, Seoul and it has 127,571,822 shares issued which capital stock amounting to ₩71,443 million as of December 31, 2022.

Shareholders	Number of shares (in shares)	Percentage of ownership (%)
Cho Jeong Ho and 4 individuals (related parties)	96,832,260	75.90%
Meritz Financial Group Inc. (treasury stock)	6,514,933	5.11%
Others	24,224,629	18.99%
	127,571,822	100.00%

## 2. Basis of financial statement preparation

### 2.1 Adoption of accounting standard

The separate financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS").

These financial statements are the separate financial statements prepared in accordance with K-IFRS No.1027, 'Separate Financial Statements'

These separate financial statements were approved by the board of directors on February 2, 2023, and will be submitted for approval to the shareholder's meeting to be held on March 17, 2023.

### 2.2 Basis of measurement

The separate financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Derivative financial instruments are measured at fair value
- Financial assets measured at FVTPL are measured at fair value
- Financial assets measured at FVOCI are measured at fair value
- Liabilities for cash-settled share-based compensation are measured at fair value
- Liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs.

### 2.3 Functional and presentation currency

These separate financial statements are presented in Korean won, which is the Company's functional currency of the primary economic environment in which the Company operates.

## **2. Basis of financial statement preparation, Continued**

### **2.4 Use of estimates and judgements**

#### **(1) Management's judgement and uncertainty of estimates and assumptions**

In conformity with K-IFRS, the preparation of the separate financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. If the estimates and assumptions based on management's best judgment as of December 31, 2022 are different from the actual environment, these estimates and actual results may be different.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these separate financial statements, the significant judgments made by management in applying the Company's accounting policies and estimated amounts are the same as those that applied to the separate financial statements as of and for the year ended December 31, 2021.

#### **(2) Measurement of fair value**

The Company's accounting policies and disclosures require fair value measurement for a number of financial and nonfinancial assets and liabilities. The Company has established fair value measurement policies and procedures. These policies and procedures include the operation of a valuation department that is responsible for reviewing all significant fair value measurements, including fair values classified as Level 3 in the fair value hierarchy, and the results are reported directly to the financial officer.

The valuation department regularly reviews significant unobservable input variables and valuation adjustments. If a fair value measurement uses third-party information such as broker prices or valuation agencies, valuations based on the information obtained from the third parties by the valuation department includes classification by level within the fair value hierarchy. We are determining whether we can conclude that it meets the requirements of the relevant standards.

The Company reports significant valuation issues to the Audit Committee.

When measuring the fair value of an asset or liability, the Company uses input variables that are observable in the market as much as possible.

Fair values are classified within the fair value hierarchy based on those inputs used in valuation techniques as follows:

- Level 1: Unadjusted published price of an active market with access to the same asset or liability on the measurement date
- Level 2: Inputs that can be directly or indirectly observed for assets or liabilities other than the published price at level 1
- Level 3: Unobservable inputs to assets or liabilities

If multiple inputs used to measure the fair value of an asset or liability are classified at different levels within the fair value hierarchy, the Company classifies the entire fair value measurement at the same level as the lowest level input in the fair value hierarchy that is significant across the measurement and recognizes a change between levels of the fair value hierarchy as of the end of the reporting period in which the change occurs.

Details of the assumptions used in the fair value measurement are included in the following note 28.

## **3. Change in significant Accounting polices**

The accounting polices applied to the Company's financial statements are the same as those applied to the previous annual financial statements. There are new accounting standards that will take effect on January 1 2022, but they do not have a significant impact on the Company's financial statements.

#### **4. Significant accounting policies**

The significant accounting policies applied by the Company in preparation of its separate financial statements are included below. The accounting policies set out below have been applied consistently to all years presented in these separate financial statements.

##### **4.1 Investments in Subsidiaries**

The financial statements of the Company are the separate financial statements prepared in accordance with K-IFRS No.1027 'Separate Financial Statements'. Investments in associates and subsidiaries are recognized at cost method. The Company recognizes dividend income from associates and subsidiaries in profit or loss when its right to receive the dividend is established.

##### **4.2 Cash and deposits**

Cash and cash equivalents comprise cash on hand, demand deposits and the investments which have maturities at acquisition of three months or less. Equity investments also qualify if they are, in substance, cash equivalents such as preference shares acquired within a short period of their maturity and with a specified redemption date. Deposits include times deposits and regular savings.

##### **4.3 Non-derivative financial assets**

###### **(1) Recognition and initial measurement**

Financial assets are recognized when the Company becomes a party to the contractual provisions of the instrument. In addition, a regular way purchase or sale (a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market concerned) is recognized on the trade date.

A financial asset is measured initially at its fair value plus, for an item not at Fair Value Through Profit or Loss ("FVTPL"), transaction costs that are directly attributable to its acquisition of the financial asset. Transaction costs on the financial assets at FVTPL that are directly attributable to the acquisition are recognized in profit or loss as incurred.

###### **(2) Classification and subsequent measurement**

The K-IFRS No.1109 requires a financial instrument to be classified and measured subsequently at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL), on the basis of the holder's business model and instrument's contractual cash flow characteristics as shown below. The requirements should be applied to an entire financial asset, even if it contains an embedded derivative.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

#### **4. Significant accounting policies, Continued**

##### **4.3 Non-derivative financial assets, Continued**

###### **(2) Classification and subsequent measurement, Continued**

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as describes shall be measured at FVPTL. This includes all derivative financial assets (See Note 6). On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or FVOCI as at FVPTL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

###### **(3) Derecognition of financial assets**

The Company derecognizes financial assets when the contractual rights to cash flows from the financial asset expire, or when the contractual rights to receive the cash flows of the financial asset has been transferred in which substantially all the risks and rewards of ownership of the transferred financial asset are transferred, or when the Company does not hold or transfer most of the risks and rewards of ownership and does not control financial assets.

If the Company transferred the financial assets but still retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

##### **4.4 Derivative financial instruments**

###### **(1) Recognition and initial measurement**

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value.

###### **(2) Day one profit and loss**

When estimating fair value of over-the-counter derivative financial instruments with unobservable inputs in the market, the difference between fair value on the trade date and transaction price is deferred. It is amortized by using the straight-line method over the life of the financial instruments. If the fair value is subsequently determined using observable inputs, the remaining deferred amount is recognized in profit or loss.

##### **4.5 Impairment of financial assets**

The Company recognizes an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e., the difference between all contractual cash flows payable under the contract and all contractual cash flows expected to be received). Expected credit losses are discounted at the effective interest rate of the relevant financial asset.

#### 4. Significant accounting policies, Continued

##### 4.5 Impairment of financial assets, Continued

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition.

	Classification	Loss allowance
Stage 1	Credit risk has not increased significantly since the initial recognition	12-month ECL: Expected credit losses that result from default events that are possible within 12 months after the reporting date.
Stage 2	Credit risk has increased significantly since the initial recognition	Lifetime ECL: Expected credit losses that result from all possible default events over the expected life of the financial instrument.
Stage 3	Credit-impaired	

The Company only recognizes the cumulative changes in lifetime expected credit losses since initial recognition as loss allowance for a financial asset that is considered credit-impaired at initial recognition.

Lifetime is the longest contract period exposed to credit risk up to the maturity date of the contract.

##### 4.6 Property and equipment

Property and equipment are initially measured at cost. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Property and equipment are depreciated based on the straight-line method over their useful lives of 4 year, which most closely reflect the expected pattern of consumption of the future economic benefits embodied in the asset.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The gain or loss arising from the derecognition of property, and equipment is determined as the difference between the net sale amount and the carrying amount, and the difference is recognized in profit or loss.

The depreciation method, residual values and useful lives of property and equipment are reviewed at each financial year-end and, if appropriate, accounted for as changes in accounting estimates.

##### 4.7 Intangible asset

Intangible assets are measured initially at cost and subsequently carried at their cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets are amortized using the straight-line method with no residual value over their estimated useful economic lives as described below since the asset is available for use.

Intangible assets	Amortization method used	Estimated useful lives
Software	Amortized on a straight line	5 years
Development cost	Amortized on a straight line	5 years
Brands	No amortization	Indefinite
Membership rights	No amortization	Indefinite

#### **4. Significant accounting policies, Continued**

##### **4.7 Intangible asset, Continued**

The amortization period and the amortization method for intangible assets with a finite useful life are reviewed at least at each financial year-end. The management reviews the useful life of intangible assets that is not being amortized each period to determine whether events and circumstances continue to support an indefinite useful life. If management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate.

##### **4.8 Impairment of non-financial Assets**

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

The Company estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then the Company estimates the recoverable amount of cash generating unit ("CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

##### **4.9 Lease**

At inception of a contract, the Company assesses whether the contract is, or contains, a lease considering if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

###### **(1) The right-of-use-assets**

At the commencement date of the lease, the Company recognizes the right-of-use assets and the lease liabilities. The right-of-use asset is measured at cost, which comprises the amount of the initial measurement of the lease liability, lease payments made at or before the commencement date (less any lease incentives received), initial direct costs, and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located.

The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement of the lease to the end of the lease term. However, if the lessor transfers the ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee depreciates the right-of-use same as a fixed asset from the commencement date to the end of the useful life of the underlying asset. The right-of-use asset may be reduced by an impairment of the underlying asset of adjusted by remeasurement of the lease liability.

In the statement of financial position, the Company classified the right-of-use-assets as 'Property and equipment'.

#### **4. Significant accounting policies, Continued**

##### **4.9 Lease, Continued**

###### **(2) Lease liabilities**

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that cannot be readily determined, the Company uses its incremental borrowing rate. The Company generally uses the incremental borrowing rate.

The lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments (including in-substance fixed payments)
- Variable lease payments depending on the index or (or a rate), initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the lessee under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease

Lease liabilities are amortized using the effective interest method. The lease liability is remeasured if the future lease payments change depending on changes in the index (or a rate), changes in the expected amount to be paid under the residual value guarantee, and changes in the assessment of whether the purchase or extension option is reasonably certain to be exercised or not to exercise the terminate option.

When remeasuring a lease liability, the related right-of-use asset is adjusted and if the carrying amount of the right-of-use asset decreases to zero (0), the remeasurement amount is recognized in profit or loss.

In the statement of financial position, the Company classified the lease liabilities as 'other financial liabilities'.

###### **(3) Short-term lease and leases for which the underlying asset is of low value**

The Company has chosen a practical expedient that does not recognize the right-of-use asset and lease liabilities for short-term lease with a lease term less than 12 months and leases for which the underlying asset is of low value. The Company recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

##### **4.10 Non-derivative financial liabilities**

The Company recognizes financial liabilities in the separate statement of financial position when the Company becomes a party to the contractual provisions of the financial liability in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. Transaction costs on the financial liabilities at FVTPL are recognized in profit or loss as incurred.

###### **(1) Financial liabilities at fair value through profit or loss**

Since initial recognition, financial liabilities at FVTPL is measured at fair value, and changes in the fair value are recognized as profit or loss.

###### **(2) Other financial liabilities**

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

#### **4. Significant accounting policies, Continued**

##### **4.10 Non-derivative financial liabilities, Continued**

###### **(3) Derecognition of financial liabilities**

The Company derecognizes a financial liability from the statement of financial position when it is extinguished (i.e., when the obligation specified in the contract is discharged, cancelled or expires). When cash flows of financial liability are altered in substance due to changes of contractual terms, previous financial liability is derecognized and the new financial liability is measured as fair value based on the new contract.

Subsequent to the derecognition of financial liability, the difference between book value and the paid amount (including non-monetary asset transferred or assumed liability) is recognized as profit or loss.

##### **4.11 Post-employment benefits**

The Company operates both defined benefit and defined contribution plans.

###### **(1) Defined contribution plans**

When an employee has rendered service to the Company during a period, the Company recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Company recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

###### **(2) Defined benefit plans**

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

If any plan amendments, curtailments, or settlements occur, past service costs or any gains or losses on settlement are recognized as profit or loss for the year.

#### **4. Significant accounting policies, Continued**

##### **4.12 Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as an asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

The Company recognizes a provision for restoration obligations associated with leased buildings after its use. The provision is measured using a discount rate and an expected restoration cost per square meters based on assumptions and estimates the Company's management made.

##### **4.13 Equity**

###### **(1) Capital stock**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Preferred stocks are classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the controlling company's shareholders.

Preferred stocks that are eligible for reimbursement of a defined or determinable amount on or after a certain date are classified as liabilities. The related dividend is recognized in profit or loss at the time of occurrence as interest expense.

###### **(2) Hybrid bond**

The Company classifies hybrid bond as either financial liability or equity instrument, based on the substance of the contract condition. If the Company has enforceable right to refuse delivering financial asset as the payment of contract obligation, hybrid bond is classified as equity instrument.

###### **(3) Treasury stock**

Treasury stock of the Company which are acquired by the Company is deducted from its equity and recorded at acquisition cost, including transaction costs. Consideration received on the sale or issuance of the Company's treasury stock is recognized directly in equity.

#### **4. Significant accounting policies, Continued**

##### **4.14 Share-based payments**

For equity-settled share-based payment transactions that provide equity in return for the goods or services received, if the Company cannot measure the fair value of goods or services acquired, the fair value of goods or services acquired are measured indirectly based on fair value of given share and the amount is recognized as employee benefits expense and equity during the vesting period. Vesting conditions, other than market conditions, are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognized for goods or services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

For cash-settled share-based payment transactions that provide cash in return for the goods or services received, the Company measures the goods or services received, and the corresponding liability at the fair value and recognizes as employee benefits expense and liabilities during the vesting period. The fair value of the liability is remeasured at the end of each reporting period and the settlement date until the liability is settled, and changes in fair value are recognized as employee benefits.

##### **4.15 Revenue recognition**

The Company recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as described below.

###### **(1) Interest income and expense**

Interest income and expense are recognized using the effective interest method according to the time passed. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income and expense. Interest income and expense on impaired loans and receivables is recognized using the original effective interest rate.

###### **(2) Dividend income**

Dividend income is recognized when the right to receive payment is established.

###### **(3) Fees and commission income**

Fees and commission income are recognized as the related services are performed.

##### **4.16 Current and deferred income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

###### **(1) Current tax**

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

The Company offsets current income tax assets and current income tax liabilities if, and only if, the Company (a) has a legally enforceable right to set off the recognized amounts and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### **4. Significant accounting policies, Continued**

##### **4.16 Current and deferred income tax, Continued**

###### **(2) Deferred tax**

Deferred income tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred income tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax asset is recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax liability is recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, deferred tax asset is recognized for deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

##### **4.17 Earnings per share**

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

##### **4.18 Non-current assets held for sale**

A non-current asset or disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. A non-current asset (or disposal group) classified as held for sale is measured at the lower of (a) its carrying amount, immediately before the initial classification of the asset (or disposal group) as held for sale and (b) fair value less costs to sell. Impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. Gain is recognized for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

A non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale is not depreciated (or amortized).

#### **4. Significant accounting policies, Continued**

##### **4.19 New standards and interpretations not yet adopted**

A number of new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; the Company has not early adopted the new or amended standards in preparing the separate financial statements.

##### **(1) Amendment to K-IFRS 1012 Income Taxes - Deferred tax related to assets and liabilities arising from a single transaction**

This is a narrow-scope amendment to apply the initial recognition exemption when temporary differences that are deductible and taxable arise simultaneously and in the same amount upon initial recognition of right-of-use assets and lease liabilities, and decommissioning liabilities and related assets. This amendment is applicable for annual periods beginning on or after January 1, 2023. In the case of a single transaction that generates right-of-use assets and lease liabilities, decommissioning liabilities and related assets, the related deferred tax assets and liabilities must be recognized by adjusting retained earnings (or another component of equity) at the beginning of the earliest comparative period presented. This amendment applies to all transactions that occur after the beginning of the earliest comparative period presented. The Company applies an approach that produces similar results to this amendment, except for the net presentation of deferred tax effects on right-of-use assets and lease liabilities, decommissioning liabilities and related assets in the statement of financial position. As a result of this amendment, the Company will recognize separate deferred tax assets and deferred tax liabilities. The impact of this amendment on the Company is expected to be immaterial.

##### **(2) The following new or amended standards are not expected to have a significant impact on the Company:**

- K-IFRS 1117 Insurance Contracts and its amendments
- Disclosure of accounting policies (K-IFRS 1001 Presentation of Financial Statements)
- Definition of accounting estimates (K-IFRS 1008 Changes in Accounting Policies, Changes in Accounting Estimates and Errors)
- Classification of current/non-current liabilities (K-IFRS 1001 Presentation of Financial Statements)

## 5. Cash and deposits

(1) The details of cash and deposits as of December 31, 2022 and 2021 are as follows (In millions of won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Cash and cash equivalent:		
Demand deposits	₩ 5,294	2
Other accounts	191,098	82,748
	<u>196,392</u>	<u>82,750</u>
Due from banks:		
Guaranteed deposits for checking accounts	3	3
	<u>₩ 196,395</u>	<u>82,753</u>

(2) Details of restricted-in-use balances in due from banks as of December 31, 2022 and 2021 are as follows (In millions of won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>	<u>Restriction</u>
Due from banks	₩ 3	3	Guaranteed deposits for checking accounts

## 6. Financial assets at fair value through profit or loss

The details of financial assets at fair value through profit or loss as of December 31, 2022 and 2021 are as follows (In millions of won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Beneficiary certificates	₩ 50,413	200,161
Others	299,041	-
Derivative financial assets:		
Total return swap	-	11,553
Deferred profit and loss adjustment of initial transaction day	-	(387)
	<u>-</u>	<u>11,166</u>
	<u>₩ 349,454</u>	<u>211,327</u>

## 7. Financial assets measured at fair value through other comprehensive income

(1) The details of financial assets measured at fair value through other comprehensive income as of December 31, 2022 and 2021 are as follows (In millions of won):

	<u>December 31, 2022</u>		<u>December 31, 2021</u>	
	<u>Acquisition cost</u>	<u>Book value</u>	<u>Acquisition cost</u>	<u>Book value</u>
Equity instrument:				
Hybrid securities (*1)	₩ 350,000	305,608	200,000	200,192
	<u>₩ 350,000</u>	<u>305,608</u>	<u>200,000</u>	<u>200,192</u>

(\*1) The Company designated the hybrid securities for internal policy purposes as financial assets measured at FVOCI.

**7. Financial assets measured at fair value through other comprehensive income, Continued**

(2) Changes in gain on valuation of FVOCI securities for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	Year ended December 31, 2022	Year ended December 31, 2021
Beginning balance	₩ 146	-
Valuation	(44,584)	192
Tax effects	10,345	(46)
Ending balance	₩ (34,093)	146

**8. Loans and receivables at amortized cost**

The details of loans and receivables at amortized cost as of December 31, 2022 and 2021 are as follows (In millions of won):

	December 31, 2022		
	Balance	Allowance for doubtful accounts	Book value
Trade receivable	₩ 4,700	-	4,700
Accrued income	1,546	-	1,546
Guarantee deposit	453	-	453
Present value discount	(21)	-	(21)
	₩ 6,678	-	6,678

  

	December 31, 2021		
	Balance	Allowance for doubtful accounts	Book value
Trade receivable	₩ 18,434	-	18,434
Accrued income	1,502	-	1,502
Guarantee deposit	453	-	453
Present value discount	(28)	-	(28)
	₩ 20,361	-	20,361

**9. Property and equipment**

(1) The details of property and equipment as of December 31, 2022 and 2021 are as follows (In millions of won):

	December 31, 2022		
	Acquisition cost	Accumulated depreciation	Book value
Furniture and equipment	₩ 1,015	(981)	34
Right-of-use assets	3,120	(1,252)	1,868
	₩ 4,135	(2,233)	1,902

  

	December 31, 2021		
	Acquisition cost	Accumulated depreciation	Book value
Furniture and equipment	₩ 1,036	(991)	45
Right-of-use assets	3,169	(744)	2,425
	₩ 4,205	(1,735)	2,470

(2) Changes in property and equipment for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	Year ended December 31, 2022				
	Beginning balance	Acquisition	Disposals	Depreciation	Ending balance
Furniture and equipment	₩ 45	4	-	(15)	34
Right-of-use assets	2,425	106	-	(663)	1,868
	₩ 2,470	110	-	(678)	1,902

  

	Year ended December 31, 2021				
	Beginning balance	Acquisition	Disposals	Depreciation	Ending balance
Furniture and equipment	₩ 9	50	-	(14)	45
Right-of-use assets	243	2,866	(11)	(673)	2,425
	₩ 252	2,916	(11)	(687)	2,470

**9. Property and equipment, Continued**

(3) The details of right-of-use assets as of December 31, 2022 and 2021 are as follows (In millions of won):

		December 31, 2022		
		Acquisition cost	Accumulated depreciation	Book value
Real estate	₩	2,796	(1,099)	1,697
Vehicles		324	(153)	171
	₩	3,120	(1,252)	1,868

  

		December 31, 2021		
		Acquisition cost	Accumulated depreciation	Book value
Real estate	₩	2,796	(574)	2,222
Vehicles		373	(170)	203
	₩	3,169	(744)	2,425

(4) Changes in acquisition cost and accumulated depreciation of right-of-use assets for the year ended December 31, 2022 are as follows (In millions of won):

		Acquisition cost			
		Beginning balance	Purchases	Termination of contract	Ending balance
Real estate	₩	2,796	-	-	2,796
Vehicles		373	106	(155)	324
	₩	3,169	106	(155)	3,120

  

		Accumulated depreciation			
		Beginning balance	Termination of contract	Depreciation	Ending balance
Real estate	₩	(574)	-	(525)	(1,099)
Vehicles		(170)	155	(138)	(153)
	₩	(744)	155	(663)	(1,252)

**10. Intangible assets**

(1) The details of intangible assets as of December 31, 2022 and 2021 are as follows (In millions of won):

		December 31, 2022		
		Acquisition cost	Accumulated impairment loss	Book value
Trademark right	₩	5,795	-	5,795
Membership rights		3,651	(365)	3,286
	₩	9,446	(365)	9,081

		December 31, 2021		
		Acquisition cost	Accumulated impairment loss	Book value
Trademark right	₩	5,789	-	5,789
Membership rights		3,651	(365)	3,286
	₩	9,440	(365)	9,075

(2) Changes in intangible assets for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

		Year ended December 31, 2022		
		Beginning balance	Purchases	Ending balance
Trademark right	₩	5,789	6	5,795
Membership rights		3,286	-	3,286
	₩	9,075	6	9,081

		Year ended December 31, 2021		
		Beginning balance	Disposals	Ending balance
Trademark right	₩	5,789	-	5,789
Membership rights		3,786	(500)	3,286
	₩	9,575	(500)	9,075

**11. Investments in subsidiaries**

The details of investments in subsidiaries as of December 31, 2022 and 2021 are as follows (In millions of won):

		December 31, 2022		
	Industry	Location	Ownership (%)	Book value
Meritz Fire & Marine Insurance Co., Ltd.	Insurance	Korea	60.89	₩ 792,639
Meritz Securities Co., Ltd.	Securities	Korea	53.39	991,738
Meritz Asset Management Co., Ltd.(*3)	Asset management	Korea	100.00	-
Meritz Alternative Investment Management Co., Ltd.	Public Fund management Business	Korea	100.00	5,000
				<u>₩ 1,789,377</u>
		December 31, 2021		
	Industry	Location	Ownership (%)	Book value
Meritz Fire & Marine Insurance Co., Ltd.	Insurance	Korea	56.09	₩ 792,639
Meritz Securities Co., Ltd. (*1,2)	Securities	Korea	48.17	991,739
Meritz Asset Management Co., Ltd.	Asset management	Korea	100.00	12,130
Meritz Alternative Investment Management Co., Ltd.	Public Fund management Business	Korea	100.00	5,000
				<u>₩ 1,801,508</u>

(\*1) The ownership ratio is presented as the Company's holding percentage against the total number of issued shares with voting rights.

(\*2) Even though the Company holds less than half of the voting rights of the entity, the other shareholdings are widely dispersed and there is no evidence that the other shareholders have any arrangements to consult any of the others or make collective decisions. As a result, the Company determined to have de facto control on Meritz Securities Co., Ltd.

(\*3) For the year ended December 31, 2022, the Company entered into a contract to sell all of its shares in Meritz Asset Management Co., Ltd., and as a result, the subsidiary was classified as an asset held for sale. The balance of assets held for sale as of December 31, 2022 is ₩12,205 million.

**Meritz Financial Group Inc.**  
**Notes to the Separate Financial Statements**  
**For the years ended December 31, 2022 and 2021**

**12. Other assets**

Details of other assets as of December 31, 2022 and 2021 are as follows (In millions of won):

	December 31, 2022	December 31, 2021
Prepaid expenses	₩ 129	130
Advanced payments	545	152
Net defined benefit assets	355	-
	<u>₩ 1,029</u>	<u>282</u>

**13. Borrowings**

The details of borrowings as of December 31, 2022 and 2021 are as follows (In millions of won):

	December 31, 2022				
	Issuance date	Maturity date	Interest rate (%)	Amount	Payment
8th Unsecured bonds	2018-11-29	2023-11-29	2.60	₩ 40,000	At maturity
9th Unsecured bonds	2019-11-28	2024-11-28	2.04	40,000	At maturity
11th Unsecured bonds	2021-04-22	2024-04-22	1.60	100,000	At maturity
12th Unsecured bonds	2021-08-06	2024-08-06	1.92	100,000	At maturity
13-1th Unsecured bonds	2021-12-07	2024-12-06	2.60	130,000	At maturity
13-2th Unsecured bonds	2021-12-07	2026-12-07	2.64	70,000	At maturity
14-1th Unsecured bonds	2022-07-25	2025-07-25	4.75	228,000	At maturity
14-2th Unsecured bonds	2022-07-25	2027-07-23	4.91	22,000	At maturity
15-1th Unsecured bonds	2022-10-07	2024-04-05	5.87	150,000	At maturity
15-2th Unsecured bonds	2022-10-07	2024-10-07	6.06	116,000	At maturity
15-3th Unsecured bonds	2022-10-07	2025-10-02	6.18	34,000	At maturity
Discount on bonds				(2,528)	
				<u>₩ 1,027,472</u>	

	December 31, 2021				
	Issuance date	Maturity date	Interest rate (%)	Amount	Payment
7th Unsecured bonds	2017-07-26	2022-07-26	2.73	₩ 100,000	At maturity
8th Unsecured bonds	2018-11-29	2023-11-29	2.60	40,000	At maturity
9th Unsecured bonds	2019-11-28	2024-11-28	2.04	40,000	At maturity
10th Unsecured bonds	2020-08-07	2022-08-07	1.62	100,000	At maturity
11th Unsecured bonds	2021-04-22	2024-04-22	1.60	100,000	At maturity
12th Unsecured bonds	2021-08-06	2024-08-06	1.92	100,000	At maturity
13-1th Unsecured bonds	2021-12-07	2024-12-06	2.60	130,000	At maturity
13-2th Unsecured bonds	2021-12-07	2026-12-07	2.64	70,000	At maturity
Discount on bonds				(1,391)	
				<u>₩ 678,609</u>	

**14. Net defined benefit liabilities (assets)**

(1) The details of net defined benefit liabilities (assets) as of December 31, 2022 and 2021 are as follows (In millions of won):

	December 31, 2022	December 31, 2021
Present value of defined benefit obligation	₩ 760	880
Fair value of plan assets	(1,115)	(683)
Net defined benefit liabilities (assets)	₩ (355)	197

(2) Changes in present value of defined benefit obligation for the years ended December 31, 2022 and 2021 are summarized as follows (In millions of won):

	Year ended December 31, 2022	Year ended December 31, 2021
Beginning balance	₩ 880	1,081
Current service cost	92	115
Interest cost	29	30
Payments	(30)	(62)
Remeasurements	(270)	(195)
Transfer	-	(89)
Transfer from related parties	59	-
Ending balance	₩ 760	880

(3) Changes in plan assets for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	Year ended December 31, 2022	Year ended December 31, 2021
Beginning balance	₩ 683	744
Interest income	22	21
Employer's contributions	390	80
Benefits paid	(30)	(62)
Operating cost	(2)	(2)
Remeasurements	(7)	(9)
Transfer	-	(89)
Transfer from related parties	59	-
Ending balance	₩ 1,115	683

(4) Details of total income or losses incurred occurred related to net defined benefit liabilities for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	Year ended December 31, 2022	Year ended December 31, 2021
Profit or loss:		
Current service cost	₩ 92	115
Net interest cost of the net defined benefit liabilities	7	9
Operating cost of plan assets	2	2
	101	126
Other comprehensive income:		
Remeasurements of defined benefit obligations	(263)	(186)
Total comprehensive income	₩ (162)	(60)

**14. Net defined benefit liabilities, Continued**

(5) The details of plan assets as of December 31, 2022 and 2021 are as follows (In millions of won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Interest rate guarantee insurance contract (*1)	₩ 1,115	683

(\*1) The product does not have a quoted price in an active market.

(6) Details of principal actuarial assumptions as of December 31, 2022 and 2021 are as follows (rate in %):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Demographic assumptions:		
Death rate	0.004~0.063	0.004~0.063
Financial assumptions:		
Discounting rate	5.88	3.25
Expected return on plan assets	5.88	3.25
Future salary increasing rate	3.73	3.73

(7) Sensitivity analysis for actuarial assumptions in defined benefit liabilities as of December 31, 2022 is as follows (In millions of won):

	<u>Defined benefit obligation</u>	<u>Current service cost</u>
Fluctuation of future salary		
1% Increase	₩ 839	72
1% Decrease	691	59
Fluctuation of discount rate		
1% Increase	693	60
1% Decrease	838	71

(8) The details of expenses arising from defined contribution retirement plans for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	<u>Year ended December 31, 2022</u>	<u>Year ended December 31, 2021</u>
Retirement benefits	₩ 599	614

**15. Provisions**

(1) The details of provisions as of December 31, 2022 and 2021 are as follows (In millions of won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Provision for restoration	₩ 190	187

(2) Changes in provisions for the years ended December 31, 2022 and 2021 are as follows (In millions won):

	<u>Year ended December 31, 2022</u>	<u>Year ended December 31, 2021</u>
Beginning balance	₩ 187	197
Unwinding effect	3	3
Reversal	-	(13)
Ending balance	<u>₩ 190</u>	<u>187</u>

**16. Other liabilities**

(1) The details of other liabilities as of December 31, 2022 and 2021 are as follows (In millions of won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Trade payable	₩ 8,723	18,500
Dividends payable	2,983	1,938
Accrued expenses	16,184	13,061
Deposit	72	74
Value added taxes	1,331	1,312
Financial guarantee obligations	292	554
Lease liabilities	1,891	2,429
	<u>₩ 31,476</u>	<u>37,868</u>

(2) The residual maturity of lease liabilities as of December 31, 2022 and 2021 is as follows (In millions of won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Within 1 year	₩ 653	636
1 year ~ 3 years	1,159	1,207
Over 3 years	136	679
	<u>₩ 1,948</u>	<u>2,522</u>

(3) The details of cash flow lease commitments for the year ended December 31, 2022 are as follows (In millions of won):

	<u>Year ended December 31, 2022</u>
Lease liabilities	₩ 684
Leases of low-value assets	5
	<u>₩ 689</u>

**17. Income tax expense and Deferred Income tax assets (liabilities)**

- (1) Components of income tax expense for the years ended December 31, 2022 and 2021 are as follows  
(In millions of won):

	Year ended December 31, 2022	Year ended December 31, 2021
Current income taxes	₩ 14,584	13,543
Tax effect on temporary differences and accumulated tax deficit	(12,442)	(1,184)
Deferred taxes recognized directly to equity	10,282	(81)
Others	10	(3,936)
	<u>₩ 12,434</u>	<u>8,342</u>

- (2) Reconciliations of income tax expense applicable to income before income tax expense at the Korea statutory tax rate to income tax expense at the effective tax rate of the Company for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	Year ended December 31, 2022	Year ended December 31, 2021
Income before income tax	₩ 120,505	228,143
Income tax according to applied tax rate	28,700	54,749
Adjustments:		
Income not subject to tax	(17,521)	(43,628)
Expenses not deductible for tax	52	4
Others	1,203	(2,783)
Income tax expense	<u>₩ 12,434</u>	<u>8,342</u>
Effective tax rate	10.32%	3.66%

**Meritz Financial Group Inc.**  
**Notes to the Separate Financial Statements**  
**For the years ended December 31, 2022 and 2021**

**17. Income tax expense and Deferred Income tax assets (liabilities), Continued**

(3) Temporary differences and deferred tax assets (liabilities) for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	Year ended December 31, 2022		Year ended December 31, 2021	
	Deductible (additional) temporary differences	Deferred tax assets (liabilities)	Deductible (additional) temporary differences	Deferred tax assets (liabilities)
Defined benefit obligations	₩ 693	161	802	194
Plan assets	(1,115)	(259)	(683)	(165)
Equity adjustments in equity method	(17,268)	(4,006)	(17,268)	(4,179)
Dividends in equity method investments	18,437	4,277	18,437	4,462
Gain on valuation of equity method investments, net	(77,780)	(18,045)	(77,780)	(18,823)
Equity in earnings of equity method investments	1,026	238	1,026	248
Loss on cross trading	(1,798)	(417)	(1,798)	(435)
Accrued income	(1,546)	(359)	(1,502)	(364)
Impairment loss on membership rights	364	85	364	88
Discounted present value (lease deposit)	21	5	28	7
Right-of-use assets	(1,868)	(433)	(2,425)	(587)
Lease liabilities	1,891	439	2,586	626
Provision for restoration	190	44	186	45
Intangible assets	(5,757)	(1,336)	(5,737)	(1,388)
Property and equipment	431	100	367	89
Rejection of unfair act and calculation	(1)	-	(1)	-
Unconfirmed costs	11,536	2,676	11,086	2,682
Stock option	3,702	859	3,889	941
Compensation facility reserve	(180,180)	(41,802)	(180,180)	(43,604)
Derivative assets	-	-	(11,166)	(2,702)
Loss (Gain) on valuation of FVOCI Securities	44,392	10,299	(192)	(46)
Gain on financial instruments at FVPL	(2,125)	(493)	-	-
	₩ (206,755)	(47,967)	(259,961)	(62,911)
Net deferred tax liabilities unrecognized (*1)		59,755		62,331
Deferred tax assets (liabilities)		11,788		(580)

(\*1) The deductible and the taxable temporary differences associated with valuation of investments in subsidiaries were not recognized as related deferred tax assets and deferred tax liabilities because the Company cannot control time of extinction and investments in subsidiaries and associates do not become extinct if investments in subsidiaries and associates do not get disposed and liquidated.

(4) Details of income tax expense directly reflected in equity for the years ended December 31, 2022 and 2021 as follows (In millions of won):

	Year ended December 31, 2022	Year ended December 31, 2021
Loss (Gain) on valuation of FVOCI Securities	₩ 10,345	(46)
Remeasurement of defined benefit pension plans	(63)	(35)
	₩ 10,282	(81)

## 18. Equity

(1) The details of capital stock as of December 31, 2022 and 2021 are as follows (In millions of won):

	December 31, 2022	December 31, 2021
Number of authorized shares to issue (in shares)	500,000,000	500,000,000
Par value per share (in won)	₩ 500	500
Number of shares issued (*1) (in shares)	127,571,822	134,011,294
Capital stock	₩ 71,443	71,443

(\*1) Due to the retirement of profits during the year, the capital stock differs from the total face value of the issued shares.

(2) Hybrid bond which classified as a capital as of December 31, 2022 and 2021 consist of the following (In millions of won):

	Date of issue	Maturity	Interest Rate (%)		December 31, 2022
Private bond type hybrid bond 1 <sup>st</sup>	2020.04.28	2050.04.28	4.20	₩	100,000
Public bond type hybrid bond 2 <sup>nd</sup>	2020.05.28	2050.05.28	4.20		70,000
Public bond type hybrid bond 3 <sup>rd</sup>	2020.10.21	2050.10.21	4.40		100,000
Public bond type hybrid bond 4 <sup>rd</sup>	2021.09.29	2051.09.29	4.36		150,000
Public bond type hybrid bond 5 <sup>th</sup>	2022.02.17	2052.02.17	4.80		176,000
Issue price					(2,891)
				₩	<u>593,109</u>

	Date of issue	Maturity	Interest Rate (%)		December 31, 2021
Private bond type hybrid bond 1 <sup>st</sup>	2020.04.28	2050.04.28	4.20	₩	100,000
Public bond type hybrid bond 2 <sup>nd</sup>	2020.05.28	2050.05.28	4.20		70,000
Public bond type hybrid bond 3 <sup>rd</sup>	2020.10.21	2050.10.21	4.40		100,000
Public bond type hybrid bond 4 <sup>rd</sup>	2021.09.29	2051.09.29	4.36		150,000
Issue price					(2,156)
				₩	<u>417,844</u>

(3) Above bond type hybrid bond has no contractual obligation to deliver financial assets such as cash exits, they have been classified as equity. The details of bond type hybrid bond are as follows:

Classification	Details
Revaluation interest rate	Revaluate rate of interest for every 5 years, adding with interest rate to the final quoted yield of 5-year treasury bond
Interest payment condition	Payment is made every three months, and interest payments can be postponed at the option of company. When the interest payment is postponed, the interest rate, applied to the principal, additionally paid to the unpaid interest.
Maturity	The maturity term is 30 years, and if bond type hybrid bond is not redeemed at the option, maturity is automatically extended for 30 years based on the Company's decision.

**18. Equity, Continued**

(4) The details of capital surplus as of December 31, 2022 and 2021 are as follows (In millions of won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Paid-in capital in excess of par value	₩ 58,007	658,007
Other capital surplus	367	180
	<u>₩ 58,374</u>	<u>658,187</u>

(5) The details of capital adjustments as of December 31, 2022 and 2021 are as follows (In millions of won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Treasury stock	₩ (174,437)	(141,387)
Equity adjustments in equity method (*1)	17,342	17,342
Negative equity adjustments in equity method (*1)	-	(74)
Loss on disposal of treasury stock	(3,102)	(3,102)
Stock option	3,702	3,888
	<u>₩ (156,495)</u>	<u>(123,333)</u>

(\*1) They were transferred due to the acquisition after the spin-off from Meritz Fire & Marine Insurance Co., Ltd. on March 25, 2011.

(6) Changes in treasury stock for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	<u>Year ended December 31, 2022</u>			
	<u>Beginning balance</u>	<u>Acquisition</u>	<u>Retirement of shares</u>	<u>Ending balance</u>
Number of shares (In shares)	8,267,167	4,687,238	(6,439,472)	6,514,933
Book values	₩ 141,387	182,890	(149,840)	174,437
	<u>Year ended December 31, 2021</u>			
	<u>Beginning balance</u>	<u>Acquisition</u>	<u>Retirement of shares</u>	<u>Ending balance</u>
Number of shares (In shares)	2,385,670	5,881,497	-	8,267,167
Book values	₩ 17,192	124,195	-	141,387

**18. Equity, Continued**

(7) Share-based payment

The Company's share-based payment arrangements of December 31, 2022 are as follows.

(a) Stock option

	<u>Holding company employees</u>	<u>Subsidiary company employees</u>
Method of grant	New stock, treasury stock or compensation for difference	Cash-settled
Date of grant	March 20, 2015	March 20, 2015
Exercise price (in won) (*1)	₩10,980	₩10,980
Number of stock options granted	1,232,000 shares	1,232,000 shares
Exercisable period	January 01, 2020 ~ December 31, 2024	January 01, 2020 ~ December 31, 2024
Changes in the number of stock options		
Beginning balance	1,155,480 shares	555,480 shares
Exercise (*2)	- shares	(400,000) shares
Changes due to share retirement	(55,524) shares	(7,473) shares
Ending balance	1,099,956 shares	148,007 shares

(\*1) For the year ended December 31, 2022, the exercise price was changed from ₩10,820 to ₩10,980 due to the Company's own share buyback and other factors.

(\*2) 400,000 stock options were exercised at ₩10,960 per shares during the current year. The weighted average stock price at the time of exercise was ₩40,977. The weighted average stock price is the arithmetic average of the weighted average prices calculated by weighting the volume of the final market price traded in the stock market for the past three months from the day before the comparison base date.

(b) Details of assumptions used to calculate compensation costs are as follows:

Risk free interest rate	2.10%
Expected life of option	58 months
Expected stock volatility	19.66%
Expected dividend ratio	1.44%
Weighted average fair value of stock option (in won)	₩3,365
Evaluation method	Binomial model

(c) The details of share-based payment expenses for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	<u>Year ended December 31, 2022</u>	<u>Year ended December 31, 2021</u>
Performance-based payment (*1)	₩ 5,526	6,903
Stock option (*2)	4,695	18,431
	<u>₩ 10,221</u>	<u>25,334</u>

(\*1) The Company pays in cash by deferring a portion of its management performance payments to its share price. This performance-based payment method is equivalent to a cash-based share-based payment transaction, which is recognized as a liability and measured at fair value at the end of each reporting period. Changes in the fair value are recognized in profit or loss.

(\*2) The Company grants the share-based payment arrangements to employees of the Company and subsidiaries, and the payment granted to the subsidiaries' employees are replenished by the subsidiaries. The Company recognizes ₩4,695 million to be replenished by the subsidiaries as receivables as of December 31, 2022.

**18. Equity, Continued**

(8) The details of accumulated other comprehensive income (loss) as of December 31, 2022 and 2021 are as follows (In millions of won):

	December 31, 2022	December 31, 2021
Gain on valuation of FVOCI Securities	₩ (34,093)	146
Remeasurements of net defined benefit liabilities	(15)	(214)
	<u>₩ (34,108)</u>	<u>(68)</u>

(9) The details of retained earnings as of December 31, 2022 and 2021 are as follows (In millions of won):

	December 31, 2022	December 31, 2021
Legal reserve (*1)	₩ 71,443	71,443
Reserve for bad debts	102	5
Unappropriated retained earnings	1,012,223	505,958
	<u>₩ 1,083,768</u>	<u>577,406</u>

(\*1) The Korean Commercial Code requires the Company to appropriate, as a legal reserve, at least 10% of cash dividends until the reserve equals outstanding capital stock for each accounting period. The legal reserve may not be utilized for cash dividends, but may be used to offset a deficit, if any, or may be transferred to capital stock.

(a) The statements of appropriation of retained earnings

The details of the statements of appropriation of retained earnings for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	Year ended December 31, 2022	Year ended December 31, 2021
I. Retained earnings before appropriations		
1. Balance at the beginning of year	₩ 479,455	299,385
2. Transfer from capital surplus	600,000	-
3. Retirement of treasury stock	(149,841)	-
4. Profit for the year	108,070	219,801
5. Dividend to hybrid bond	(25,461)	(13,228)
	<u>1,012,223</u>	<u>505,958</u>
II. Incorporation of voluntary reserve		
1. Reserve for bad debts	68	-
	<u>68</u>	<u>-</u>
III. Appropriation of retained earnings:		
1. Reserve for bad debts	-	97
2. Cash Dividend	12,720	26,406
(Dividends per common share in won (rate): ₩105 (21%) in 2022, ₩210 (42%) in 2021)		
	<u>12,720</u>	<u>26,503</u>
IV. Retained earnings carried forward to the next year	<u>₩ 999,571</u>	<u>479,455</u>

**18. Equity, Continued**

(10) Reserve for bad debts

The reserve for bad debts is calculated and disclosed pursuant to Article 27 of the Financial Holding Companies Supervisory Regulation

(a) Balances of regulatory reserve for bad debts as of December 31, 2022 and 2021 are as follows (In millions of won):

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Beginning balance	₩ 102	5
Planned reserve for bad debts	(68)	97
Ending balance	<u>₩ 34</u>	<u>102</u>

(b) The details of provisions for the bad debt reserve and income adjusted for the deductions for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	<u>Year ended December 31, 2022</u>	<u>Year ended December 31, 2021</u>
Net income	₩ 108,070	219,801
Planned reserve for bad debts	68	(97)
Adjusted income after deducting reserve for bad debts (*1)	<u>₩ 108,138</u>	<u>219,704</u>
Earnings per share on adjustment after reflecting reserve for bad debts (In won) (*2)	₩ 671	1,606
Diluted earnings per share on adjustment after reflecting reserve for bad debts (In won) (*2)	667	1,598

(\*1) Adjusted income after deducting reserve for bad debts is calculated after making an assumption that reserve for bad debts is reflected in accordance with the Regulations for Supervision of Financial Supervisory Service.

(\*2) Adjusted income used in calculating earnings per share are amounts after deducting dividends from hybrid bond.

**Meritz Financial Group Inc.**  
**Notes to the Separate Financial Statements**  
**For the years ended December 31, 2022 and 2021**

**19. Dividend income**

The details of dividend income for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	Year ended December 31, 2022	Year ended December 31, 2021
Financial assets at FVOCI	₩ 13,944	3,952
Subsidiaries	74,781	191,671
	<u>₩ 88,725</u>	<u>195,623</u>

**20. Net interest income and expense**

The details of interest income and expense for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	Year ended December 31, 2022	Year ended December 31, 2021
Interest income:		
Due from banks	₩ 1,726	581
Loans	-	2
Others	2,628	6
	<u>4,354</u>	<u>589</u>
Interest expense:		
Borrowing	-	(26)
Bond	(23,282)	(9,943)
Others	(44)	(41)
	<u>(23,326)</u>	<u>(10,010)</u>
	<u>₩ (18,972)</u>	<u>(9,421)</u>

**21. Selling and administrative expenses**

The details of selling and administrative expenses for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	Year ended December 31, 2022	Year ended December 31, 2021
Salaries	₩ 9,029	12,250
Retirement benefits	697	739
Employee welfare	690	662
Rents	229	226
Entertainment fee	113	76
Depreciation	678	687
Taxes and dues	106	91
Advertising expense	1	1
Usual development expense	92	82
Others	51	52
	<u>₩ 11,686</u>	<u>14,866</u>

**22. Other operating income**

The details of other operating income for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	Year ended December 31, 2022	Year ended December 31, 2021
Other operating income		
Gain on valuation of derivatives	₩ -	2,398
Amortization of trading profit / loss adjustment	-	1,565
Gain on transaction of derivatives	3,056	-
Others	311	316
	<u>3,367</u>	<u>4,279</u>
Other operating expense		
Loss on transaction of derivatives	(203)	(509)
	<u>₩ 3,164</u>	<u>3,770</u>

**23. Non-operating income and expense**

The details of non-operating income and expense for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	Year ended December 31, 2022	Year ended December 31, 2021
Non-operating income:		
Others	₩ 2	14
	<u>2</u>	<u>14</u>
Non-operating expense		
Others	(166)	(1)
	<u>₩ (164)</u>	<u>13</u>

## 24. Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2022 and 2021 are computed as follows:

(1) Weighted-average number of ordinary shares outstanding (In shares):

	<u>Year ended December 31, 2022</u>	<u>Year ended December 31, 2021</u>
Number of ordinary shares issued at the beginning of the year	125,744,127	131,625,624
Number of ordinary shares issued at the end of the year	121,056,890	125,744,127
Weighted-average number of ordinary shares outstanding	123,127,079	128,564,036

(2) Basic earnings per share (In won and number of shares):

	<u>Year ended December 31, 2022</u>	<u>Year ended December 31, 2021</u>
Net income (*1)	₩ 82,609,018,518	206,573,454,341
Weighted-average number of common stock outstanding	123,127,079	128,564,036
Basic earnings per share	₩ 671	1,607

(\*1) The dividend amount of hybrid bond is deducted.

(3) Weighted-average number of ordinary shares outstanding for diluted earnings per share (In shares):

	<u>Year ended December 31, 2022</u>	<u>Year ended December 31, 2021</u>
Weighted-average common stock (Ordinary)	123,127,079	128,564,036
Adjustments:		
Stock options	742,115	612,729
Weighted-average common stock (Dilution)	123,869,194	129,176,765

(4) Diluted earnings per share (In won and number of shares):

	<u>Year ended December 31, 2022</u>	<u>Year ended December 31, 2021</u>
Net income (*1)	₩ 82,609,018,518	₩ 206,573,454,341
Weighted-average common stock (Dilution)	123,869,194	129,176,765
Diluted earnings per share	₩ 667	₩ 1,599

(\*1) The dividend amount of hybrid bond is deducted.

**25. Related party transactions**

(1) Related parties for the year ended December 31, 2022 are as follows:

Type	Related parties
Subsidiary	Meritz Fire & Marine Insurance Co., Ltd. Meritz Securities Co., Ltd. Meritz Asset Management Co., Ltd. Meritz Alternative Investment Management Co., Ltd. Meritz DM Private 1st Meritz Vietnam Securities Investment Trust AIP Euro Green 8 Inc. Kiwoom Milestone US Professional Private Real Estate Investment Trust 18 IGIS Global Private Real Estate Investment Trust 301 IGIS Global Private Real Estate Investment Trust 434 IGIS Global Private Real Estate Investment Trust 461 IGIS US Private Real Estate Investment Trust 266 IGIS US Private Real Estate Investment Trust 292 UP Global Private Real Estate Fund VI Meritz Professional Private Real Estate Investment Trust 20 Meritz Professional Private Real Estate Investment Trust 21 PIA Private Real Estate Investment Trust No. 6-1 PIA Private Real Estate Investment Trust No. 6-2 Eco Daisy DK Project 4 Cosplace 1st PT.MERITZ KORINDO INSURANCE Meritz Korea Securities Feeder Investment Trust 1 C-2 Meritz China Securities Investment Trust Class C1 Meritz-Bio Designers fund no.1 VI Light Professional Private Investment Trust 1 Sun&Tree IPO Private investment trust-1 Ciel IPO Private Investment Trust No.1 KIM Navigator Securities Investment Trust 1(Equity)(C-F) BKPL Private Fund 12 BKPL Private Fund 13 SP High Yield Private Investment Trust 2 Alpha Senior Loan Real Estate General Investment Trust 1 Woori IPO High Yield Private Securities Investment Trust 2(Balanced Bond) MiraeAsset High Dividend Focus Feeder Investment Trust (Equity) (C-C1) Tiger Alternative Investment Class A Debt Trust No. 1 Type 1 Belle Époque Opportunity High-Yield, High-Risk Hedge Fund 1 Belle Époque Opportunity M1 Hedge Fund 1 Hizeasset IPO Private Investment Trust 2 Trinity Unicorn IPO Professional Private Investment Trust 1 Kclavis IPO Private Investment Trust 2 Korea Asset Classic IPO Private Equity Fund 2 Eastspring Best growth Private Investment Trust 2nd JR General Private Placement Real Estate Fund Investment Trust No.9-1 Meritz Private Real Estate Fund 19 Ciel IPO High Yield Private Investment Trust 2 Korea Asset Classic high yield IPO Hedge Fund 4 JB IPO Professional Private Investment Trust 3 SUN&TREE IPO HIGH-YIELD HEDGE FUND 4 Hize High-yield IPO Private Investment Trust 3 Global One Professional Investment Type Private IPO Investment Trust No.2 Global One High Yield IPO Private Investment Trust 3 KeyWest Public Offering High Yield Fund 3 Optimum high-yield fund 5 Eastspring IPO High Yeild Private Investment Trust 1st PTR USA NASDAQ100 Core Professional Private Investment Trust 1 PineStreet Asia Private Placement Special Asset Investment Trust No. 1-2 TRUSTAR High Yield Fund Series 1 TRUSTAR IPO Fund Series 1 Saram4.0 Private Placed Fund 1 Class I

**25. Related party transactions, Continued**

(1) Related parties for the year ended December 31, 2022 are as follows, Continued:

Type	Related parties
Subsidiary	Meritz Capital Co., Ltd. Itrust Active High Yield Private Investment Trust 3 Anda H IPO high yield Private Securities Investment Trust 1[Hybrid-Bond] Dunamis High Yield General Private Investment Trust Fund Skywalk EXTENSION Private Investment Trust 2nd Melon IPO Investment Private Trust 1st Itrust Active High Yield Private Investment Trust 2 Brain KOSDAQ Venture Investment Private Trust 2nd C-I Mercury Kosdaq Venture 2 Global One KOSDAQ Venture Investment Private Trust 1st Mercury IPO Professional Private Investment Trust 1 Kiwoom Milestone GRMC Investment Private Trust 1st W KOSDAQ Venture(M) 2nd fund GG INVESTMENT IPO 2 IPARTNERS Prime Professional Private Investment Trust 10 IPARTNERS Prime Professional Private Investment Trust 10 C RELAN HIGHYIELD FUND 1 TIGER ALTERNATIVE INVESTMENT TRUST NO.10 Mountain IPO high-yield private equity investment trust Araa high yield fund 1 C-S class Tiger Alternative Investment Trust No. 31 by Nonghyup Bank as trustee Melon High Private Securities Investment Trust 1 Blitz High-Yield MGreen Private Investment Trust (*) TIMEFOLIO It's Time High-yield Hedge Fund LX LQ I Hedge fund 1 OHA High Yield Private Securities Investment Trust 2 Brain IPO-High Yield Private Fund 3 Lion Blue HighYield Hedge fund 3rd Moru Jang-in IPO Investment Trust(Private Placement) 2 Monnchase Galilei High Yield Hedge Fund 1 TIGER ALTERNATIVE INVESTMENT TRUST NO.17 PHAROS IPO High yield Professional Investor Private Investment Trust No.4 INMARK 必 High Yield IPO FUND Vogo Alpha Plus IPO High-yield fund #3 My first asset high yield fund CK Goldlocks High-Yield Fund 1 KFIN IPO focused High Yield Bond Private Fund 2nd RootN Global High-Yield Investment Trust(Private Placement) 3 INMARK 必 Post IPO fund JP Professional investment type private equity investment trust 12th RootN Global Value-up Investment Trust(Private Placement) 1 Prophet Reach-Rich IPO Plus Qualified Private Asset Investment Trust W KOSDAQ Venture(M) 4st Fund KAAM High Yield Hedge Fund 2 INMARK 必 KOSDAQ Venture Fund Sprot High Yield Private Investment Trust No.1 PTR IPO High Yield Balanced I Fund TERRAMONS IPO High yield FUND 1st TERRAMONS IPO FUND 1 <sup>st</sup> Consus HighYield-IPO Private Fund(Balanced) Prophet Reach-Rich Highyield Qualified Private Asset Investment Trust No. 3 LX LQ III KOSDAQ Venture Hedge fund 1 Vestas Qualified Private Real Estate Fund Investment Trust No.69-2[FoF] Dunamis IPO General Private Investment Trust Fund 2 Itrust Active IPO Private Investment Trust 5 KOREIT IPO M Private Equity Fund No.1 KGT High Yield general Investors Private equity investment trust No. 3 Honors Highyield Funds 3 The 1st AP IPO High Yield Private Equity Fund

**25. Related party transactions, Continued**

(1) Related parties for the year ended December 31, 2022 are as follows, Continued:

Type	Related parties
Subsidiary	Mercury IPO & High Yield General Private Equity Investment Trust 6 GG private equity high-yield investment trust no.3 JP High Yield Fund 14 Queen's Guard High yield General Private Investment Trust No. 4 Hizeasset IPO Private Investment Trust 4 Core SPAC Private equity fund 2 Fibonacci Equity MS 1 Fibonacci Fixed Income MS 1 Pitta Highyield Private Equity Fund 2 Signature High Yield General Private Equity Investment Trust No. 1 Renaissance High-Yield Privately placed Fund No. 2 KAIROS IPO high yield private investment fund No. 1 Korea Fixed Income Smart High Yield General Private Investment Trust No. 1 [bond balanced] Methus high-yield fund No.2 KAAM Multi Strategy FUND 2nd LAMBDA IPO Focus Private Equity Fund 1 LAMBDA Mezzanine Focus Private Equity Fund 1 W high yield 3rd Fund KS High-Yield Private Investment Trusts No.2 EK IPO High Yield Private Equity Trust II EK IPO Private Equity Trust III Korean Alternative Investment Smart Education system Investment Private Trust 1st INMARK UK Private Real Estate Investment Trust 19-1 Genesis north America power company no.1 PEF Genesis Upstream, Co., Ltd. GM Presidio LLC Presidio Co-Investors A LLC Southlake Indiana LLC Southlake Mall Milestone India Professional Investor's Private Real Estate Investment Limited Liability Company Samchully Midstream Private Placement Special Asset Fund8 IGIS U.S. PRIVATE INVESTMENT TRUST NO.401 AIP Energy Infrastructure Specialized Privately Placed Fund Trust No.3 Milestone Central Private Investment Trust Milestone Private Real Estate Investment Trust 15 South Lake 1st, Co., Ltd. MCBH 1st, Co., Ltd. The Tempest Co. Maplebay, Co., Ltd. M Square M port 1st, Co., Ltd. GPI 6th, Co., Ltd. SLT JanghangDaeto 1st, Co., Ltd. Haeyoodong 2nd, Co., Ltd. Cygnus 2nd, Co., Ltd. Meri Milano, Co., Ltd. SLT Shinhwa, Co., Ltd. GPI12 Co., Ltd. KSL 1st, Co., Ltd. Grasslands 2nd, Co., Ltd. GM The One, Co., Ltd. KSL 2nd, Co., Ltd. Vienna Rose, Co., Ltd. SLT Nonhyeon, Co., Ltd. M Square Cloud, Co., Ltd. SLT Yangju, Co., Ltd. GM New York 1st, Co., Ltd. M Start 1st, Co., Ltd. SLT Believe 2nd, Co., Ltd. JSM 1st, Co., Ltd. Classic Blue, Co., Ltd

**25. Related party transactions, Continued**

(1) Related parties for the year ended December 31, 2022 are as follows, Continued:

Type	Related parties
Subsidiary	Saint Luis Co., Ltd GPI15 Co., Ltd. SH manchon No.1 Co., Ltd. Aoede 1st Co., Ltd Mango Aloe 1st Co., Ltd Gwangmyung Haan Tiamo Co., Ltd Eco Grande Co., Ltd. Cherryblossom 1st Co., Ltd GPI 17TH Co., Ltd SKY CASTLE 1st Co.,Ltd GPI 19TH Co., Ltd Mseongnaedong 1st Co., Ltd HDBA 3th Co., Ltd. Seocho Terracehill 1st SCOPER 1st Co.,Ltd. Katalyst 2nd Co., Ltd M Osan 1st GH Buldang 1st Uyeon ost 1st Uporia 6th., Co. Ltd Project Ssangchon Great Yeoksam 1st HERRYSBILL 1ST CO.,LTD CAVALLI 1ST CO.,LTD COSMOFORE COSMOGREEN DAEGU BONRI FIRST DAEGU BONRI SECOND GREAT DAECHI 2nd Smart Hapchun Yongsan Project 1st The First HMS Oliveness 1st Co., Ltd TREES THE FIRST CO., LTD Cosmojoy Co., Ltd Gamma Story 1st Stark 1st Co., Ltd Olaf 1st, Co.,Ltd Charleston Co., Ltd. Media Growth Capital 1st Co., Ltd. JD Ulsan 1st, Co.,Ltd ChangAm Development, Co.,Ltd Meritz Auto Eighth Securitization Specialty Co., Ltd. Great WangSan 3rd Great Indukwon Jaeilcha, Co.,Ltd Nice Supyo Inc. Nice Uksu Inc. Bikblue8, Co.,Ltd Smart nonhyeon, Co.,Ltd SLT Paju Co., Ltd. GPI 22nd, Co., Ltd. GPI 21st, Co., Ltd. Nice Sunhwa Inc. SLT NEWYORK1, Co.,Ltd Eugene Global Real Estate Fund No. 1 Lyric REIT LLC Lyric Joint Venture LLC Lyric Property Owner LLC GPI 23rd, Co., Ltd. GPI 20th, Co., Ltd.

**25. Related party transactions, Continued**

(1) Related parties for the year ended December 31, 2022 are as follows, Continued:

Type	Related parties
Subsidiary	Sprott Global Renewable Private Investment Trust No.1 Nice soo seong Inc. SegyoTera, Co.,Ltd Bikblue5, Co.,Ltd Songbok4, Co.,Ltd Jchungdang1st, Co.,Ltd Great Ulsan Jeilcha, Co.,Ltd The First GM 32th, Co.,Ltd GS 5ST CO.,LTD. Great pyoungtaek godeok jaeilcha, Co.,Ltd NeoLaon Co., Ltd. NeolDT Co., Ltd. Bikblue6, Co.,Ltd SinGwanggyo 1st, Co.,Ltd AIS GER 1st Co.,Ltd. Uporia 7th Co., Ltd Haksan Castle 1st Co., Ltd Neosilver Co., Ltd. Kyobo Securities power income solution Private Investment Trust Mount Arklow Co., Ltd Meritz Auto ninth Securitization Specialty Co., Ltd. Itrust Active High Yield Private Investment Trust 6 Kiwoom Frontier Privately Placed Fund 22 [Bond] KIM Basic Private Investment Trust 114 Meritz China Securities Investment Trust Class C4 Meritz Salaryman Securities Investment Trust Class C Meritz Salaryman Securities Investment Trust Class C-P2 Meritz Korea Small Cap Securities Investment Trust CI Meritz Global Infra Securities Investment Trust Class C Meritz Asia Technology Securities Feeder Investment Trust[Equity] Meritz Global Healthcare Securities Investment Trust Class C4 Meritz Global The Woman Securities Investment Trust Class CF Meritz Korea Securities Investment Trust Class C-P2
Affiliated companies	Korea Investment Aircraft Fund 5 Korea Investment Aircraft Fund 6 Meritz Professional Private Real Estate Investment Trust 8 Meritz Professional Private Real Estate Investment Trust 7 M Plus Sky Private Real Estate Investment Trust 4 Heungkuk Flight Private Real Estate Investment Trust 10 Heungkuk Flight Private Real Estate Investment Trust 11 AI Partners Energy Infra Investment Trust 1 Heungkuk Flight Private Real Estate Investment Trust 12 Heungkuk Flight Private Real Estate Investment Trust 13 Mastern Europe Flight Private Real Estate Investment Trust 5 Mastern Europe Flight Private Real Estate Investment Trust 10 Anda Project C Private Securities Investment Trust 1 Consus Busan Gijang Private Real Estate Fund no.2 Skywalk Game Changer Hedge Fund No.1 Asia Gross 1st Private Equity partnership Global Bio Investment Association Genesis North America Power 1 GongPyeong 15-16 PFV OST Partners Higs Frontier, Co., Ltd ASEAN Platform New Technology Association 1 TK Build Meritz DS New Technology Association Chungmu-ro PFV Co., Ltd. Gaha U&I Hangang Landmark PFV Co., Ltd.

**25. Related party transactions, Continued**

(1) Related parties for the year ended December 31, 2022 are as follows, Continued:

Type	Related parties
Affiliated companies	Daon Construction Atila Infra 1 Private Equity partnership Galmae PFV Co., Ltd. New Wave New Technology Finance Association 2 Songgang Industrial Development Daesan ENG Industrial Construction Next V City PFV Triple Space Sunu Urban Development Meritz King High Technology Finance Association 1 Meritz-K Clavis New Technology Association 1 Mastern 116th Gangnam Premium PFV Meritz Alphaview Fund2 Anseong Seongeun logistics PFV Co. Ltd DM METAL Handaritz Meritz GoldenEgg Fund1 S R Industrial Co., Ltd Sinchon 2-7 PFV SW-RN Fund YKOSAN PFV NH-Meritz Contents 1 Fund Daehoon Partners Corp. JQ Hanyang-Meritz 1 Fund Heung Young Industrial Development The First Porte 2` KI CHUNGPYUNG BUG Logistics Project Finance Investment Hangang Eco JUN GEUM Construction Co., Ltd Cornerstone Mutual Growth 8 Fund Gimhae Daedong Smart Logistics Corp KR Seocho Co., Ltd. COSMOS Hanwha-Pentastone I Funds Meritz-AssetOne 1 Partners Dongtan Triple Space Hanyang-Pentastone Hi-tech I Funds Meritz-NH healthcare 1 Fund Meritz-SNP 1 Fund STCL Incorporation Nuova dong cheon pfv Moohan Urban Development, Co.,Ltd Meritz-GCI system semiconductor Fund no.1 AsanBaebangCombined development PFV Gimhae Daedong Green Smart Logistics, Co.,Ltd JC Insurance Platform Private Equity Fund No.1 Guri PFV AIP Euro Green Professional Private Real Estate Investment Trust 7 Midas Global DEBT Private Real Estate Investment Trust 6 NH Presidio Investments LLC Edelweiss Alternative Solutions Trust Shinhan AIM Real Estate Fund No. 22-A Consus Osan Segyo Private Real Estate Fund PT. Wampu Electric Power Candmpartners, Co.,Ltd Meritz-DS 1 Fund East chungla, Co.,Ltd Daishin Eco Energy 1st Private Equity Fund

**25. Related party transactions, Continued**

(1) Related parties for the year ended December 31, 2022 are as follows, Continued:

Type	Related parties
Affiliated companies	Samil DnC, Co.,Ltd Naejapilwoon PFV Meritz Alphaview Fund 3 Ascent-Meritz Fund 1 Lion JCGI Blue Pre-IPO Private Equity Fund III Class C-I Pharos Investment Private Trust 1st NH-Meritz Hightech Fund Gmdtaewoo, Co., Ltd VM Energy Highyield Fund Uamco Pinewood Corporate Financial Stability Private Equity partnership Hyundai You First Private Real Estate Investment Trust 32 The L One, Co., Ltd Recycling I Funds SKYWALK ALPHA-X HEDGE FUND NO.1 Ascent-Meritz Fund 2 KAI-DI Hidden tag Association King High Bio Grows 3 Investment Association Seongnam Godeung Jeil Pungkyeongchae Fund No.1

**Meritz Financial Group Inc.**  
**Notes to the Separate Financial Statements**  
**For the years ended December 31, 2022 and 2021**

**25. Related party transactions, Continued**

(2) Transactions with related parties for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	Year ended December 31, 2022				
	Income			Expense	
	Dividends	Commission income	Other income	Rental expense	Other expense
Subsidiaries:					
Meritz Fire & Marine Insurance Co., Ltd.	₩ 44,624	24,939	-	259	197
Meritz Securities Co., Ltd.	44,101	28,015	1,000	-	26
Meritz Asset Management Co., Ltd.	-	34	-	-	-
Meritz Capital Co., Ltd.	-	1,524	311	-	1
Meritz Alternative Investment Management Co., Ltd.	-	24	-	-	-
	₩ 88,725	54,536	1,311	259	224

	Year ended December 31, 2021				
	Income			Expense	
	Dividends	Commission income	Other income	Rental expense	Other expense
Subsidiaries:					
Meritz Fire & Marine Insurance Co., Ltd.	₩ 86,597	24,715	-	255	180
Meritz Securities Co., Ltd.	109,026	27,740	251	-	22
Meritz Asset Management Co., Ltd.	-	33	-	-	-
Meritz Capital Co., Ltd.	-	1,416	316	-	3
Meritz Alternative Investment Management Co., Ltd.	-	18	-	-	-
	₩ 195,623	53,922	567	255	205

**25. Related party transactions, Continued**

(3) Outstanding balances with related parties arising from the above transactions as of December 31, 2022 and 2021 are as follows (In millions of won):

	December 31, 2022		
	Assets		Liabilities
	Cash and due from banks	Other assets	Other liabilities
Subsidiaries:			
Meritz Fire & Marine Insurance Co., Ltd.	₩ -	489	1,712
Meritz Securities Co., Ltd.	43,937	1,517	-
Meritz Capital Co., Ltd.	-	4,695	300
	₩ 43,937	6,701	2,012

	December 31, 2021		
	Assets		Liabilities
	Cash and due from banks	Other assets	Other liabilities
Subsidiaries:			
Meritz Fire & Marine Insurance Co., Ltd.	₩ -	463	2,219
Meritz Securities Co., Ltd.	56,804	1,502	-
Meritz Capital Co., Ltd.	-	18,431	556
	₩ 56,804	20,396	2,775

In addition, the Company holds ₩212,907 million and ₩200,192 million in hybrid bonds issued by Meritz Securities Co., Ltd. as of December 31, 2022 and 2021, respectively, and ₩92,701 million in hybrid bonds issued by Meritz Fire & Marine Insurance Co., Ltd. as of December 31, 2022. These are recognized as financial assets measured at FVOCI.

(4) Payment guarantees provided to the related parties as of December 31, 2022 and 2021 are as follows (In millions of won):

	Type	December 31, 2022		December 31, 2021	
		Credit line	Exercised amount	Credit line	Exercised amount
Meritz Capital Co., Ltd	Financial guarantee contract	₩ 800,000	800,000	800,000	750,000

(5) Details of compensation for key management personnel for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	Year ended December 31, 2022	Year ended December 31, 2021
Short-term employee payment	₩ 6,834	9,850
Retirement benefits	565	471
	₩ 7,400	10,321

**26. Cash flow information**

(1) The details of significant non-cash transactions for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	Year ended December 31, 2022	Year ended December 31, 2021
Replacement of Trade receivables and stock option	₩ -	25,224
Transfer to right-of-use assets	106	2,855
Gain on valuation of financial assets measured at FVOCI	(34,239)	146
Remeasurements of net defined benefit liabilities	199	151
Retirement of treasury stock	149,841	-
Reclassification of non-current assets as held for sale	12,205	-

(2) Changes in liabilities arising from financing activities for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	Year ended December 31, 2022				
	Cash flows from financing activities				
	Beginning balance	Newly acquired	Repayment	Non-cash change (*1)	Ending balance
Bonds	₩ 678,609	548,077	(200,000)	786	1,027,472
Lease liabilities	2,429	-	(684)	146	1,891

(\*1) Amortization of discount on issuance of bonds and lease liabilities and the change in the lease liabilities due to new contracts, etc.

	Year ended December 31, 2021				
	Cash flows from financing activities				
	Beginning balance	Newly acquired	Repayment	Non-cash change (*1)	Ending balance
Bonds	₩ 379,490	398,726	(100,000)	393	678,609
Lease liabilities	247	-	(678)	2,860	2,429

(\*1) Amortization of discount on issuance of bonds and lease liabilities and the change in the lease liabilities due to new contracts, etc.

## 27. Contingent liabilities and commitment

### 27.1 Litigation and contingent liabilities

As of December 31, 2022, there is no pending lawsuit.

## 28. Fair value of financial instruments

(1) Details of the book value and fair value of the financial assets and liabilities as of December 31, 2022 and 2021 are as follows (In millions of won):

	December 31, 2022		December 31, 2021	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Cash and due from banks	₩ 196,395	196,395	82,753	82,753
Financial assets measured at FVTPL	349,454	349,454	211,327	211,327
Financial assets measured at FVOCI	305,608	305,608	200,192	200,192
Loans and receivables at amortized costs	6,678	6,678	20,361	20,361
	₩ 858,135	858,135	514,633	514,633
Financial liabilities:				
Borrowing liabilities	₩ 1,027,472	1,008,327	678,609	679,070
Other liabilities	30,073	30,073	36,482	36,482
	₩ 1,057,545	1,038,400	715,091	715,552

Methods and assumptions used in estimating the fair value are as follows:

- i. For cash and due from banks and trade payable, expiry dates are short-term so book value and fair value are similar. For loans and receivables, there is no significant difference between market situation of acquisition date or issue date as of December 31, 2022, so book value is calculated as fair value.
- ii. The fair value of borrowings is calculated after discounting at appropriate rate using the distribution rate of bonds on future cash flows based on DCF method.
- iii. Among financial assets measured at fair value through profit or loss, fair value was calculated using published prices for securities traded in active markets.
- iv. For financial assets measured at fair value through other comprehensive income, the fair value of receivables and the fair value of call options with respect to future contractual cash flows are determined by Hull-White model, LSMC(Least Square Monte Carlo) Simulation, Lonstaff-Schwart regression analysis, etc.

**28. Fair value of financial instruments, Continued**

(2) Details of fair value hierarchy of financial instruments as of December 31, 2022 and 2021 are as follows (In millions of won):

		December 31, 2022			
		Fair value			
		Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>					
Cash and due from banks	₩	-	196,395	-	196,395
Financial assets measured at FVTPL		-	349,454	-	349,454
Financial assets measured at FVOCI		-	-	305,608	305,608
Loans and receivables at amortized costs		-	-	6,678	6,678
	₩	-	545,849	312,286	858,135
<b>Financial liabilities:</b>					
Borrowing liabilities	₩	-	1,008,327	-	1,008,327
Other liabilities		-	-	30,073	30,073
	₩	-	1,008,327	30,073	1,038,400
		December 31, 2021			
		Fair value			
		Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>					
Cash and due from banks	₩	-	82,753	-	82,753
Financial assets measured at FVTPL		-	200,161	11,166	211,327
Financial assets measured at FVOCI		-	-	200,192	200,192
Loans and receivables at amortized costs		-	-	20,361	20,361
	₩	-	282,914	231,719	514,633
<b>Financial liabilities:</b>					
Borrowing liabilities	₩	-	679,070	-	679,070
Other liabilities		-	-	36,482	36,482
	₩	-	679,070	36,482	715,552



**28. Fair value of financial instruments, Continued**

- (5) The line items in profit or loss in which those gains or losses in Level 3 financial instruments for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	<u>Year ended December 31, 2022</u>	
	<u>Profit or loss for the year</u>	<u>Profit or loss related to financial instruments held at the end of the reporting period</u>
Gain on financial instruments at fair value through profit or loss	₩ 3,056	-
	<u>Year ended December 31, 2021</u>	
	<u>Profit or loss for the year</u>	<u>Profit or loss related to financial instruments held at the end of the reporting period</u>
Gain on financial instruments at fair value through profit or loss	₩ 3,963	3,963

- (6) Changes in a Day 1 profit or loss for the years ended December 31, 2022 and 2021 are as follows (In millions of won):

	<u>Assets</u>	
	<u>Year ended December 31, 2022</u>	<u>Year ended December 31, 2021</u>
Beginning balance	₩ 387	1,952
Profit or loss for the year	(387)	-
Decreased amount due to cancel a contract	-	(1,565)
Ending balance	<u>₩ -</u>	<u>387</u>

**28. Fair value of financial assets and liabilities, Continued**

(7) Classification by categories of financial instruments

(a) The carrying amounts for each category of financial assets and financial liabilities as of December 31, 2022 and 2021 are as follows (In millions of won):

	December 31, 2022				Total
	Financial assets measured at FVTPL	Financial assets measured at FVOCI	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	
Financial assets:					
Cash and due from banks	₩ -	-	196,395	-	196,395
Financial assets measured at FVTPL	349,454	-	-	-	349,454
Financial assets measured at FVOCI	-	305,608	-	-	305,608
Loans and receivables at amortized costs	-	-	6,678	-	6,678
	<u>₩ 349,454</u>	<u>305,608</u>	<u>203,073</u>	<u>-</u>	<u>858,135</u>
Financial liabilities:					
Borrowing liabilities	₩ -	-	-	1,027,472	1,027,472
Other liabilities	-	-	-	30,073	30,073
	<u>₩ -</u>	<u>-</u>	<u>-</u>	<u>1,057,545</u>	<u>1,057,545</u>
	December 31, 2021				Total
	Financial assets measured at FVTPL	Financial assets measured at FVOCI	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	
Financial assets:					
Cash and due from banks	₩ -	-	82,753	-	82,753
Financial assets measured at FVTPL	211,327	-	-	-	211,327
Financial assets measured at FVOCI	-	200,192	-	-	200,192
Loans and receivables at amortized costs	-	-	20,361	-	20,361
	<u>₩ 211,327</u>	<u>200,192</u>	<u>103,114</u>	<u>-</u>	<u>514,633</u>
Financial liabilities:					
Borrowing liabilities	₩ -	-	-	678,609	678,609
Other liabilities	-	-	-	36,482	36,482
	<u>₩ -</u>	<u>-</u>	<u>-</u>	<u>715,091</u>	<u>715,091</u>

**28. Fair value of financial assets and liabilities, Continued**

(7) Classification by categories of financial instruments, Continued

(b) The profit and loss for each financial asset and financial liability category for the years ended December 31, 2022 and 2021, are as follows (In millions of won):

	Year ended December 31, 2022	Year ended December 31, 2021
Financial assets measured at FVTPL		
Gain on valuation	₩ 2,257	2,559
Gain on disposal	6,939	-
Interest income	2,628	-
Loss on disposal	(203)	(509)
	<u>₩ 11,621</u>	<u>2,050</u>
Financial assets measured at FVOCI		
Dividend income	₩ 13,944	3,952
Financial assets measured at amortized cost		
Interest income	₩ 1,726	589
Financial liabilities measured at amortized cost		
Interest expense	₩ (23,326)	(10,010)

**29. Risk management**

**29.1 Overview of risk management**

The Company classifies various risks as credit risk, market risk and liquidity risk in order to respond actively to changes in the economic environment. Risk Management Committee, the Company Risk Management Committee and the Risk Management Department independently are operated by the Company for risk management.

**29.2 Risk management by each type**

**29.2.1 Credit risk management**

Credit risk is the potential risk that the Company will incur a loss because its customers or counterparties fail to discharge their contractual obligations and have credit deterioration. The Company does not actively manage investments associated with credit risk. The Company mainly has deposits in banks and other institutions.

The details of exposure to credit risk as of December 31, 2022 and 2021 are as follows (In millions of won):

	December 31, 2022	December 31, 2021
Cash and deposits	₩ 196,395	82,753
Loans and receivables	6,678	20,361
	<u>₩ 203,073</u>	<u>103,114</u>

As of December 31, 2022, the Company's additional credit risk considerations include an exercised amount of payment guarantees, ₩ 800,000 million, for Meritz Capital Co., Ltd. in off balance accounts.

## 29. Risk management, Continued

### 29.2 Risk management by each type, Continued

#### 29.2.1 Credit risk management, Continued

As of December 31, 2022 and 2021, the breakdown of loans and receivables at amortized cost by overdue and impairment status is as follows (In millions of won):

	December 31, 2022	December 31, 2021
Loans neither overdue nor impaired	₩ 6,699	20,389
Present value discount	(21)	(28)
	<u>₩ 6,678</u>	<u>20,361</u>

#### 29.2.2 Market risk management

The market risk means the loss of assets and liabilities that can be incurred due to changes in market variables such as interest rates, foreign exchanges and equity prices. The Company is exposed to market risk marginally because the Company mainly has deposits in banks and other institutions.

#### 29.2.3 Liquidity risk management

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations when they fall due under both normal and stressful circumstances. The Company is monitoring ownership of cash and maturity structure of current liabilities, etc. for management of liquidity risk.

The details of cash flows by contractual maturity of financial assets and liabilities as of December 31, 2022 and 2021 are as follows (In millions of won):

	December 31, 2022			
	Within 1 year	1 ~ 3 years	Over 3 years	Total
Financial assets:				
Cash and due from banks	₩ 196,395	-	-	196,395
Financial assets Measured at FVTPL	349,454	-	-	349,454
Loans and receivables at amortized costs	6,247	-	452	6,699
	<u>₩ 552,096</u>	<u>-</u>	<u>452</u>	<u>552,548</u>
Financial liabilities:				
Borrowing liabilities	₩ 40,000	898,000	92,000	1,030,000
Other liabilities	14,716	14,276	1,216	30,208
	<u>₩ 54,716</u>	<u>912,276</u>	<u>93,216</u>	<u>1,060,208</u>
Off balance accounts				
Agreements, etc. (*1)	₩ 800,000	-	-	800,000

(\*1) The entire payments guarantee has been exercised.

## 29. Risk management, Continued

### 29.2 Risk management by each type, Continued

#### 29.2.3 Liquidity risk management, Continued

The details of cash flows by contractual maturity of financial assets and liabilities as of December 31, 2022 and 2021 are as follows (In millions of won), Continued:

	December 31, 2021			
	Within 1 year	1 ~ 3 years	Over 3 years	Total
Financial assets:				
Cash and due from banks	₩ 82,753	-	-	82,753
Financial assets				
Measured at FVTPL	200,161	-	-	200,161
Derivative assets	8,152	5,493	-	13,645
Loans and receivables at amortized costs	19,936	-	453	20,389
	₩ 311,002	5,493	453	316,948
Financial liabilities:				
Borrowing liabilities	₩ 200,000	410,000	70,000	680,000
Other liabilities	10,876	24,439	1,259	36,574
	₩ 210,876	434,439	71,259	716,574
Off balance accounts				
Agreements, etc. (*1)	₩ 1,090,000	-	-	1,090,000

(\*1) The unexecuted limit in relation to the payment guarantee is ₩ 50,000 million.

#### 29.2.4 Capital risk management

Capital risk management is to maintain a capital adequacy and optimal capital structure of the Company to retain the ability to provide a benefit for shareholders and other stakeholders. The Company's debt-to-equity ratio is used as an indicator of capital management options.

The debt-to-equity ratio as of December 31, 2022 and 2021 are as follows (In millions of won):

	December 31, 2022	December 31, 2021
Liability (A)	₩ 1,067,427	726,490
Equity (B)	1,616,089	1,601,478
Liability ratio (A/B)	66.05%	45.36%

### **30. Events after the reporting period**

(1) Stock exchange with Meritz Fire & Marine Insurance Co., Ltd.

The Company decided to exchange stocks with shareholders of Meritz Fire & Marine Insurance Co., Ltd. other than the Company, transferring their shares in Meritz Fire & Marine Insurance Co., Ltd. to the Company and paying 1.2657378 common shares of the Company per common share of Meritz Fire & Marine Insurance Co., Ltd. to the shareholders subject to the exchange. This was resolved at a general meeting of shareholders held on January 5, 2023. Accordingly, Meritz Fire & Marine Insurance Co., Ltd. was delisted on February 21, 2023.

(2) Stock exchange with Meritz Securities Co., Ltd.

The Company decided to exchange stocks with shareholders of Meritz Securities Co., Ltd. other than the Company, transferring their shares in Meritz Securities Co., Ltd. to the Company and paying 0.1607327 common shares of the Company per common share of Meritz Securities Co., Ltd. to the shareholders subject to the exchange. This was resolved at a general meeting of shareholders held on March 8, 2023. Accordingly, Meritz Securities Co., Ltd. is scheduled to be delisted on April 25, 2023.

## **Audit report on Internal Control over Financial Reporting**

Meritz Financial Group Inc.

The internal control over financial reporting of Meritz Financial Group Inc. as at December 31, 2022 has been audited by the independent auditors and the independent auditor's report pursuant to Article 8 of the *Act on External Audit of Stock Companies*.

1. Independent auditor's report on internal control over financial reporting
2. ICFR Operation Status Report by CEO



## **Independent auditor's report on internal control over financial reporting**

Based on a report originally issued in Korean

**To the Shareholders and Board of Directors of  
Meritz Financial Company Inc.**

### ***Opinion on Internal Control over Financial Reporting***

We have audited Meritz Financial Company Inc.'s (the "Company") internal control over financial reporting ("ICFR") as of December 31, 2022 based on the criteria established in the Conceptual Framework for Designing and Operating ICFR ("ICFR Design and Operation Framework") issued by the Operating Committee of Internal Control over Financial Reporting in the Republic of Korea (the "ICFR Committee").

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on ICFR Design and Operation Framework.

We also have audited, in accordance with Korean Standards on Auditing (KSAs), the separate financial statements of the Company, which comprise the statement of financial position as of December 31, 2022, and 2021, and the separate statements of comprehensive income, the separate statements of changes in equity and the separate statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information, and our report dated March 9, 2023 expressed an unmodified opinion on those separate financial statements.

### ***Basis for Opinion***

We conducted our audit in accordance with KSAs. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Internal Control over Financial Reporting* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the internal control over financial reporting in 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 opinion.

### ***Responsibilities of Management and Those Charged with Governance for the Internal Control over Financial Reporting***

The Company's management is responsible for designing, operating and maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying 'Internal Control over Financial Reporting Operating Status Report.'

Those charged with governance are responsible for overseeing the Company's internal control over financial reporting.

### ***Auditors' Responsibilities for the Audit of the Internal Control over Financial Reporting***

Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We conducted our audit in accordance with KSAs. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk.

**Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Korean International Financial Reporting Standards ("K-IFRS"). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with K-IFRS, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The engagement partner on the audit resulting in this independent auditors' report is *Jae-Beom Choi*.

Seoul, Korea  
March 9, 2023

*KPMG Samjong Accounting Corp.*

This report is effective as of March 9, 2023, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the internal control over financial reporting. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

## Report on the Effectiveness of the Internal Control over Financial Reporting

To the Shareholders, Board of Directors and Audit Committee of Meritz Financial Group Inc.

We, as the Chief Executive Officer ("CEO") and the Internal Control over Financial Reporting("ICFR") Officer of Meritz Financial Group Inc. ("the Company"), assessed the effectiveness of the design and operation of the Company's Internal Control over Financial Reporting for the year ended December 31, 2022.

The Company's management, including ourselves, is responsible for designing and operating ICFR. We assessed the design and operating effectiveness of the ICFR in the prevention and detection of an error or fraud which may cause material misstatements in the preparation and disclosure of reliable financial statements. We followed the 'Best Practice Guideline' which is established by the Operating Committee of Internal Control over Financial Reporting in Korea (the "ICFR Committee") to evaluate the effectiveness of the ICFR design and operation.

Based on the assessment results, we believe that the Company's ICFR, as at December 31, 2022, is designed and operating effectively, in all material respects, in conformity with the Best Practice Guideline.

We certify that this report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein.

We also certify that this report does not contain or present any statement which cause material misunderstandings, and we have reviewed and verified this report with sufficient due care.

February 24, 2023

Name, Yong Beom Kim  
Chief Executive Officer

(sign)  


Name, Dong jin Lee  
Internal Control over Financial Reporting Officer

(sign)  
