

# **Meritz Securities Co., Ltd. and its subsidiaries**

Consolidated financial statements  
for the years ended December 31, 2018 and 2017  
with the independent auditor's report



## Independent auditor's report

### The Shareholders and Board of Directors Meritz Securities Co., Ltd.

#### Opinion

We have audited the accompanying consolidated financial statements of Meritz Securities Co., Ltd. and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

#### Basis for opinion

We conducted our audits in accordance with Korean Auditing Standards (KGAAS). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of fair values of financial assets classified as Level 3 of fair value hierarchy

As of December 31, 2018, the Group's financial instruments classified as Level 3 include ₩1,445,223 million of assets representing 4.64% of total assets and ₩3,674,808 million of liabilities representing 13.27% of total liabilities.

The Group classifies financial instruments into Levels 1, 2, and 3 based on the observable level of inputs used in measuring the fair value of financial instruments. If unobservable inputs are significant, the Group classifies the financial instruments as Level 3. The accounting estimate for the measurement of fair values of financial instruments classified as Level 3 may be highly uncertain as variety of valuation techniques and inputs are used, and the measurement results vary significantly depending on how management determines valuation techniques and unobservable inputs.

Major audit procedures we have conducted on the management's fair value assessment of financial assets classified as Level 3 are as follows:

- Perform analytical procedures for changes in amounts.
- Perform substantive audit procedure based on sampling method.

- Assess whether financial assets are classified into fair value hierarchy based on the characteristics of significant inputs.
- Review whether the valuation techniques applied by the management by type of financial assets are commonly used in the market.
- Select samples from the issuance information input in the system for fair value assessment of derivatives and reconcile with the information in the contract.
- Use experts in the audit team or external experts to independently reevaluate samples of derivatives selected by type.
- Review the independence and competence of external experts hired by the Group.
- Review for the appropriateness of the assessment assumptions and estimates conducted by external experts hired by the Group.
- Select samples of financial instruments evaluated by the external experts hired by the Group and conduct a written query.

Related notes

- Note 46

Measurement of loss allowances for the loans

As of December 31, 2018, the Group's loans of ₩12,847,968 million are subjected to recognition of loss allowances which amount to ₩166,621 million. These loans comprise 41.23% of total assets.

The Group measures the expected credit losses (ECL) differently depending on the level of changes in credit risk since the initial recognition of the loans. For those credit exposures for which there has been a significant increase in credit risk since initial recognition or credit has been impaired, the Group recognizes lifetime ECLs. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, 12-month ECLs are recognized.

The loss allowance is calculated based on an individual valuation or collective valuation. The individual valuation computes the loss allowance against the present value of expected future cash flows estimated by individual loan. The collective valuation computes loss allowance by estimating credit risk parameters (default rate, default loss rate) in a statistical manner based on the past impairment. Management's judgment is mandatory for estimating the credit risk parameters used to measure the loss allowance.

The loss allowance, measured based on the management's judgment, may change, leading to significant impact on the financial statements. The major audit procedures we have conducted for the loss allowance are as follows.

- Perform analytical procedures for the changes in loss allowance.
- Perform substantive audit procedures based on the sampling method.
  - Auditor's independent valuation of recoverable cash flows estimated by the management under individual valuation
  - Auditor's independent valuation of the credit risk parameters used by the management under collective valuation
  - Review the independence and competence of external experts hired by the Group.
  - Review the assessment assumptions and estimates on future cash flows, discount rates, and recoverable period, etc. conducted by external experts hired by the Group in calculation of recoverable amounts.
- Conduct a written query, if necessary, in relation to recoverable amounts of loans evaluated by external experts hired by the Group.

Related notes

- Note 12
- Note 49-1

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

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

## **Auditors' responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 Korean Auditing Standards (KGAAS) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Korean Auditing Standards (KGAAS) we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 partner in charge of the audit resulting in this independent auditor's report is Shin Keum-Cheol.

*Ernst & Young Han Young*

March 7, 2019

This audit report is effective as of March 7, 2019, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's report to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

# **Meritz Securities Co., Ltd. and its subsidiaries**

Consolidated financial statements  
for the years ended December 31, 2018 and 2017

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

Alexander Heemoon Choi  
Chief Executive Officer  
Meritz Securities Co., Ltd.

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**Meritz Securities Co., Ltd. and its subsidiaries**  
**Consolidated statements of financial position**  
**as of December 31, 2018 and 2017**

(Korean won in thousands)

	Notes	December 31, 2018	December 31, 2017
<b>Assets</b>			
Cash and due from banks	7, 39, 40, 45, 46, 49	₩ 1,944,296,437	₩ 1,403,474,941
Financial assets measured at FVTPL	8, 25, 39, 40, 45, 46, 47, 49	12,700,429,817	9,919,881,110
Financial assets measured at FVOCI	9, 45, 46, 49	810,410,340	-
Available-for-sale financial assets	10, 40, 45, 46, 49	-	1,251,665,821
Investments in associates and joint ventures	11	595,164,467	209,734,766
Loans	12, 39, 45, 46, 47, 49	12,653,434,325	8,523,643,031
CMA	13, 45, 46, 49	4,995,324	4,994,458
Lease assets	14, 45, 46, 49	1,211,786,123	1,107,606,416
Property and equipment	15	93,967,368	98,193,071
Investment property	16	12,046,100	12,620,166
Intangible assets	17	35,796,484	35,015,128
Defined benefit assets	23	1,143,161	-
Tax assets	37	97,708,831	82,969,767
Other assets	18, 39, 45, 46, 47, 49	1,000,632,280	800,766,537
<b>Total assets</b>		<b>₩ 31,161,811,057</b>	<b>₩ 23,450,565,212</b>
<b>Liabilities</b>			
Deposits	19, 39, 45, 46, 49	₩ 2,424,276,424	₩ 3,231,933,356
Financial liabilities measured at FVTPL	20, 25, 39, 45, 46, 47, 49	5,841,958,994	2,300,300,574
Borrowings	21, 39, 45, 46, 47, 49	18,252,819,343	13,676,507,197
Provisions	22, 41	15,938,751	2,070,024
Tax liabilities	37	75,835,137	55,107,460
Other liabilities	24, 39, 45, 46, 47, 49	1,077,869,140	872,043,222
<b>Total liabilities</b>		<b>₩ 27,688,697,789</b>	<b>₩ 20,137,961,833</b>
<b>Equity</b>			
Issued capital	26	₩ 717,488,890	₩ 717,488,890
Capital surplus and adjustments	27, 28	1,406,151,364	1,405,316,988
Accumulated other comprehensive income	29	79,358,926	80,223,319
Retained earnings	30	1,170,369,588	1,009,829,682
<b>Equity attributable to equity holder of the parent</b>		<b>3,373,368,768</b>	<b>3,212,858,879</b>
<b>Non-controlling shareholders' equity</b>		<b>99,744,500</b>	<b>99,744,500</b>
<b>Total equity</b>		<b>₩ 3,473,113,268</b>	<b>₩ 3,312,603,379</b>
<b>Total liabilities and equity</b>		<b>₩ 31,161,811,057</b>	<b>₩ 23,450,565,212</b>

The accompanying notes are an integral part of the consolidated financial statements.



**Meritz Securities Co., Ltd. and its subsidiaries**  
**Consolidated statements of profit or loss and other comprehensive income**  
**for the years ended December 31, 2018 and 2017**  
(Korean won in thousands)

	Notes	Year ended December 31, 2018	Year ended December 31, 2017
<b>Operating revenue:</b>			
Commission income	31	₩ 434,808,928	₩ 412,855,859
Gain on valuation and disposal of financial instruments	32	1,610,808,452	814,007,934
Gain on derivative valuation and transactions	25, 32	4,657,454,443	2,676,974,758
Interest income	33	1,044,097,173	662,883,624
Gain on valuation and disposal of loans	12	3,602,477	4,856,228
Gain on foreign exchange transactions		680,811,007	628,670,373
Lease income	14	104,985,986	64,337,307
Others	35	202,849,503	32,879,578
		<u>8,739,417,969</u>	<u>5,297,465,661</u>
<b>Operating expenses:</b>			
Commission expenses	31	(66,295,086)	(41,732,258)
Loss on valuation and disposal of financial instruments	32	(1,428,145,712)	(748,702,915)
Loss on derivative valuation and transactions	25, 32	(4,861,648,763)	(2,676,153,078)
Interest expenses	33	(402,206,621)	(299,411,197)
Loss on valuation and disposal of loans	12	(76,817,446)	(35,831,948)
Loss on foreign exchange transactions		(681,752,914)	(623,186,865)
General and administrative expenses	34	(502,072,660)	(404,788,766)
Lease expense	14	(52,936,803)	(20,789,442)
Others	35	(135,192,814)	(3,286,711)
		<u>(8,207,068,819)</u>	<u>(4,853,883,180)</u>
<b>Operating income</b>		<b>532,349,150</b>	<b>443,582,481</b>
Other income	36	84,924,374	28,074,415
Other expenses	36	(28,051,076)	(5,286,694)
Income before income taxes		<u>589,222,448</u>	<u>466,370,202</u>
<b>Income tax expense</b>	37	<b>(155,399,424)</b>	<b>(111,133,006)</b>
<b>Net income</b>	30	<b>₩ 433,823,024</b>	<b>₩ 355,237,196</b>
<b>Other comprehensive income:</b>			
Items that will not be reclassified subsequently to profit or loss:			
Gain on valuation of equity securities measured at FVOCI	9	1,692,990	-
Gain on valuation of financial liabilities designated as measured at FVTPL		114,348	-
Remeasurement gain (loss) on defined benefit plan	23	(571,213)	391,365
Items that may be reclassified subsequently to profit or loss:			
Gain on valuation of debt securities measured at FVOCI	9	(4,959,700)	-
Net gain on available-for-sale financial assets	10	-	1,443,576
Exchange differences on translation of foreign operations		73,451	(73,451)
Capital change in equity method		-	(545,824)
		<u>(3,650,124)</u>	<u>1,215,666</u>
<b>Total comprehensive income:</b>		<b>₩ 430,172,900</b>	<b>₩ 356,452,862</b>
Controlling interests		424,581,216	352,233,188
Non-controlling interests		5,591,684	4,219,674
<b>Basic earnings per share</b>	38	<b>₩ 708</b>	<b>₩ 634</b>
<b>Diluted earnings per share</b>	38	<b>₩ 641</b>	<b>₩ 600</b>

The accompanying notes are an integral part of the consolidated financial statements.

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Consolidated statements of changes in equity**  
**for the years ended December 31, 2018 and 2017**  
(Korean won in thousands)

	<b>Issued capital</b>	<b>Capital surplus</b>	<b>Accumulated other comprehensive income</b>	<b>Retained earnings</b>	<b>Non-controlling shareholders' equity</b>	<b>Total</b>
As of January 1, 2017	₩ 496,638,534	₩ 553,151,474	₩ 79,007,653	₩ 749,512,566	₩ -	₩ 1,878,310,227
Dividends	-	-	-	(90,700,406)	-	(90,700,406)
Total comprehensive income:						
Net income	-	-	-	351,017,522	4,219,674	355,237,196
Other comprehensive income:						
Remeasurements of the net defined benefit liabilities	-	-	391,365	-	-	391,365
Gain (loss) on valuation of available-for-sale financial assets	-	-	1,443,576	-	-	1,443,576
Capital change in equity method	-	-	(545,824)	-	-	(545,824)
Gain (loss) on foreign currency transactions	-	-	(73,451)	-	-	(73,451)
Allocated expense of stock options	-	735,298	-	-	-	735,298
Adjustment to capital surpluses by business combinations	-	17,710,181	-	-	-	17,710,181
Comprehensive exchange of stock	109,002,538	198,969,174	-	-	99,744,500	407,716,212
Dividends paid of hybrid bond	-	-	-	-	(4,219,674)	(4,219,674)
Issue of convertible callable preferred stock	111,847,818	634,756,743	-	-	-	746,604,561
Acquisition of treasury stocks	-	(5,882)	-	-	-	(5,882)
As of December 31, 2017	₩ 717,488,890	₩ 1,405,316,988	₩ 80,223,319	₩ 1,009,829,682	₩ 99,744,500	₩ 3,312,603,379

	<b>Issued capital</b>	<b>Capital surplus</b>	<b>Accumulated other comprehensive income</b>	<b>Retained earnings</b>	<b>Non-controlling shareholders' equity</b>	<b>Total</b>
As of January 1, 2018	₩ 717,488,890	₩ 1,405,316,988	₩ 80,223,319	₩ 1,009,829,682	₩ 99,744,500	₩ 3,312,603,379
Effect of changes in accounting standards	-	-	2,785,730	(8,658,903)	-	(5,873,173)
Dividends	-	-	-	(128,798,437)	-	(128,798,437)
Redemption of convertible callable preferred stock	-	-	-	(130,264,047)	-	(130,264,047)
Total comprehensive income:						
Net income	-	-	-	428,231,339	5,591,684	433,823,023
Other comprehensive income:						
Gain (loss) on valuation of equity securities measured at FVOCI	-	-	1,692,990	-	-	1,692,990
Gain (loss) on valuation of debt securities measured at FVOCI	-	-	(4,959,700)	-	-	(4,959,700)
Remeasurements of the net defined benefit liabilities	-	-	(571,213)	-	-	(571,213)
Gain (loss) on valuation of financial liabilities designated as measured at FVTPL	-	-	114,348	29,954	-	144,302
Gain (loss) on foreign currency transactions	-	-	73,451	-	-	73,451
Allocated expense of stock options	-	834,376	-	-	-	834,376
Dividends paid of hybrid bond	-	-	-	-	(5,591,684)	(5,591,684)
As of December 31, 2018	₩ 717,488,890	₩ 1,406,151,364	₩ 79,358,925	₩ 1,170,369,588	₩ 99,744,500	₩ 3,473,113,267

The accompanying notes are an integral part of the consolidated financial statements.

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Consolidated statements of cash flows**  
**for the years ended December 31, 2018 and 2017**  
(Korean won in thousands)

	Year ended December 31, 2018	Year ended December 31, 2017
<b>Operating activities:</b>		
Net income before income taxes	₩ 589,222,448	₩ 466,370,202
Adjustments to non-cash items :		
Loss (gain) on valuation of financial instruments held-for-trading	(15,423,316)	(6,834,566)
Loss (gain) on derivative valuation, net	189,427,208	18,309,253
Loss (gain) on valuation of financial assets designated at fair value through profit or loss, net	(217,621,688)	(22,879,597)
Gain on evaluation of other financial instruments, net	(49)	(1,026)
Provision of allowance for doubtful accounts	85,775,599	38,045,890
Provision of other allowance for doubtful accounts	1,042,653	1,035,758
Loss (gain) on foreign currency translation, net	(5,389,157)	5,275,142
Depreciation of property and equipment	7,149,819	7,295,108
Amortization of intangible assets	3,146,678	5,705,156
Depreciation expenses on operating lease assets	34,525,249	12,222,266
Impairment losses on financial assets measured at FVOCI (reversal)	(4,615,983)	-
Loss (gain) related to available-for-sale financial investments, net	-	1,285,205
Contribution to provision (reversal)	7,725,661	(8,206,944)
Provision (reversal) of credit risk adjustments	(14,742,905)	182,224
Day 1 profit or loss adjustments (reversal)	(35,545,835)	(5,542,843)
Post-employment benefit	4,202,962	4,485,969
Loss (gain) on valuation of incentives	4,574,969	15,756,359
Compensation expenses associated with stock option	(994,467)	3,411,064
Other operating revenues	-	(192,921)
Loss (gain) on disposal of property and equipment, net	18,503	(1,011,481)
Loss (gain) on disposal of investment property	-	(1,589,070)
Gain on disposal of intangible assets, net	-	(540,567)
Gain on disposal of investments in associates, subsidiaries and joint venture, net	(46,609,588)	(4,815,743)
Gain in equity method	(16,110,648)	(14,394,853)
Interest income	(1,094,222,073)	(697,850,831)
Interest expense	402,206,621	299,411,197
Dividend income	(21,724,137)	(13,504,392)
	<u>(733,203,924)</u>	<u>364,944,243</u>
Changes in operating assets and liabilities:		
Cash and due from banks	(583,092,978)	(201,670,657)
Financial assets at fair value through profit or loss	(2,312,970,031)	1,862,613,732
Loans	(5,055,478,488)	(1,616,055,885)
CMA	(4,940)	23,100,000
Lease assets	(144,988,858)	(97,336,649)
Other assets	(149,844,782)	(184,926,304)
Due to customers	(806,825,803)	6,716,011
Held-for-trading financial liabilities	88,892,925	(130,072,358)
Financial liabilities at fair value through profit or loss	3,373,520,926	(207,150,631)
Provisions	(4,553)	(371,322)
Defined benefit liabilities	(6,112,132)	(6,597,873)
Other liabilities	191,022,855	202,720,792
	<u>(5,405,885,859)</u>	<u>(4,074,258,608)</u>
Total interest received	1,013,402,418	684,453,204
Total interest paid	(375,526,424)	(280,975,088)
Total dividends received	19,840,701	8,444,052
Income tax paid	(150,512,508)	(89,796,014)
<b>Net cash flows provided by operating activities</b>	<b><u>5,042,663,150</u></b>	<b><u>(3,650,706,495)</u></b>

(Continued)

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Consolidated statements of cash flows**  
**for the years ended December 31, 2018 and 2017 (cont'd)**

(Korean won in thousands)

	<u>Year ended</u> <u>December 31, 2018</u>	<u>Year ended</u> <u>December 31, 2017</u>
<b>Investing activities:</b>		
Disposal of financial assets measured at FVOCI	₩ 1,605,656,863	₩ -
Disposal of available-for-sale financial assets	-	2,707,274,226
Disposal of investment in associates and joint venture	437,115,198	104,939,401
Receipt of dividends from associates	20,476,746	15,709,359
Disposal of property and equipment	-	4,079,157
Disposal of investment property	-	9,286,941
Decrease in intangible assets	-	2,538,645
Decrease in guarantee deposits	-	880,000
Disposal of investments in subsidiaries	27,047,650	436,548,916
Acquisition of financial assets measured at FVOCI	(1,390,615,544)	-
Acquisition of available-for-sale financial assets	-	(2,477,969,385)
Acquisition of investment in associates and joint venture	(828,459,265)	(53,600,000)
Acquisition of property and equipment	(2,911,835)	(4,756,866)
Acquisition of intangible assets	(3,928,034)	(2,777,380)
Increase in guarantee deposits	(3,812,077)	(6,084,000)
<b>Net cash provided by (used in) investing activities</b>	<b><u>(139,430,298)</u></b>	<b><u>736,069,014</u></b>
<b>Financing activities:</b>		
Increase in borrowings, net	3,149,189,667	1,648,005,110
Increase in short-term bonds, net	795,230,000	403,000,000
Issue of bonds	2,981,624,760	1,605,556,348
Issue of convertible callable preferred stock	-	746,604,561
Redemption of bonds	(1,524,076,586)	(1,022,726,460)
Dividends paid	(259,062,484)	(90,700,406)
Dividends paid of hybrid bond	(5,591,684)	(4,219,674)
Transaction costs on issue of shares	-	(582,072)
Transaction costs on issue of subsidiaries shares	-	(96,000)
Acquisition of treasury stocks	-	(5,883)
<b>Net cash provided by financing activities</b>	<b><u>5,137,313,673</u></b>	<b><u>3,284,835,524</u></b>
<b>Net increase in cash and cash equivalents</b>	<b>(44,779,776)</b>	<b>370,198,043</b>
<b>Effect from exchange rate changes on cash and cash equivalents</b>	<b>259,714</b>	<b>(1,036,725)</b>
<b>Cash and cash equivalents at the beginning of the year (Note 7)</b>	<b>1,026,348,909</b>	<b>657,187,591</b>
<b>Cash and cash equivalents at the end of the year (Note 7, 41)</b>	<b><u>₩ 981,828,847</u></b>	<b><u>₩ 1,026,348,909</u></b>

The accompanying notes are an integral part of the consolidated financial statements.

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2018 and 201**

**1. Group information**

Meritz Securities Co., Ltd. (the "Company") was established on February 24, 1973 under the name of Hanil Securities Co., Ltd. and primarily engages in the securities business including brokerage services, proprietary trading and underwriting of securities. The Company changed its name to Hanjin Investment Securities Co., Ltd. on October 1, 1990 and finally changed its name to Meritz Securities Co., Ltd. on March 1, 2000.

The Company merged its subsidiary, Meritz Investment Bank Co., Ltd. ("Meritz IB") on April 1, 2010. As a result of the merger, the Company is allowed to engage in Meritz IB's businesses, which include various financial services related to the issuance of commercial papers, providing corporate loans and payment guarantees and other related services, until March 2020 according to the *Financial Investment Services and Capital Markets Act*. The Company has been designated as a comprehensive financial investment business entity in November 2020 to engage in the credit offering business with corporates. The Company operates through a network of the main office and 7 domestic branches which involve sales departments.

The Company prepared consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") in accordance with KIFRS 1110 *Consolidated Financial Statements* (see Note 2). Investments in associates and joint ventures are accounted for using the equity method in the consolidated financial statements.

The Company is listed on the Korea Exchange ("KRX"), and the major shareholders of the Company as of December 31, 2018 are as follows:

Shareholders	Number of shares		Percentage of ownership (%)	
	Common Stock	Preferred Stock	Common Stock	Preferred Stock
Meritz Financial Group Inc. ("Meritz FG")	269,704,840	-	44.53	-
Cho Jeong Ho	6,424,646	-	1.06	-
Treasury stock	43,138,195	-	7.12	-
Others	286,373,391	98,043,473	47.29	100.00
	605,641,072	98,043,473	100.00	100.00

**2. Scope of consolidation**

**2.1 The Company's equity ownership in its consolidated subsidiaries as of the reporting date is summarized as follows:**

Investee	December 31, 2018				
	Country	Ownership (%)	Company	Main Business	Type of control
Meritz Capital Co., Ltd.	Korea	100.00	Financial business	Credit specialized financial business	Equity holding
RREEF Spezial Invest GmbH trust of security contract	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
Eugene Separate Taxation High-Yield PE No.2	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
Eugene Separate Taxation High-Yield PE No.7	Korea	99.74	Investment fund and trust	Investment in securities etc.	Equity holding
Yurie Separate Taxation High-Yield PE No.1	Korea	99.70	Investment fund and trust	Investment in securities etc.	Equity holding
Kiwoom Separate Taxation High-Yield No.2	Korea	99.73	Investment fund and trust	Investment in securities etc.	Equity holding
Koreit Separate Taxation High-Yield PE No.4	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
Sparx Separate Taxation High-Yield No.1	Korea	99.66	Investment fund and trust	Investment in securities etc.	Equity holding
Lime Investment Trust 1st	Korea	92.50	Investment fund and trust	Investment in securities etc.	Equity holding
Olion IPO Multi Strategy Investment Trust 2nd	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
Olion IPO Multi Strategy Investment Trust 2nd C-I	Korea	66.67	Investment fund and trust	Investment in securities etc.	Equity holding

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2018 and 2017**

**2.1 The Company's equity ownership in its consolidated subsidiaries as of the reporting date is summarized as follows: (cont'd)**

December 31, 2018					
Investee	Country	Ownership (%)	Company	Main Business	Type of control
Areumdeuri Investment Private Trust 1st	Korea	94.00	Investment fund and trust	Investment in securities etc.	Equity holding
Bluetech Multi Fund Specialty Investment Trust 1st	Korea	91.67	Investment fund and trust	Investment in securities etc.	Equity holding
Bros IPO Investment Private Trust 1st	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
Human Investment Trust	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
Capstone EU Investment Private Trust 1st	Korea	99.63	Investment fund and trust	Investment in securities etc.	Equity holding
Assetone Private Investment Trust 1st	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
Milestone Private Investment Trust 1st	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
BNK High Yield Investment 1st	Korea	99.62	Investment fund and trust	Investment in securities etc.	Equity holding
Brain KOSDAQ Venture Investment Private Trust 2nd C-I	Korea	93.67	Investment fund and trust	Investment in securities etc.	Equity holding
DS Quattro.V KOSDAQ Venture Investment Private Trust C-I	Korea	93.77	Investment fund and trust	Investment in securities etc.	Equity holding
Capstone KOSDAQ Venture Investment Private Trust 11th	Korea	95.14	Investment fund and trust	Investment in securities etc.	Equity holding
Global One KOSDAQ Venture Investment Private Trust 1st	Korea	96.77	Investment fund and trust	Investment in securities etc.	Equity holding
Owl Public offer Investment Private Trust 2nd	Korea	97.96	Investment fund and trust	Investment in securities etc.	Equity holding
IPARTNERS KOSDAQ Venture Investment Private Trust	Korea	94.34	Investment fund and trust	Investment in securities etc.	Equity holding
Capstone Investment Private Trust 15th	Korea	92.59	Investment fund and trust	Investment in securities etc.	Equity holding
Kiwoom Milestone GRMC Investment Private Trust 1st	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
WooriAltamira Trust	Korea	99.90	Investment fund and trust	Investment in securities etc.	Equity holding
Kiwoom Milestone Europe Real Estate Investment Trust 5th	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
Korean Alternative Investment Smart Education Investment Private Trust 1st	Korea	99.32	Investment fund and trust	Investment in securities etc.	Equity holding
Smart-S 10th Securitization	Korea	1.00	Special purpose company	Securitization of backed asset	ABS holding, a shareholder with the right of residuary estate
Meritz Securitization Specialty Co., Ltd.	Korea	0.90	Special purpose Company	Securitization of backed asset	A shareholder with the right of residuary estate
New Commons 1st	Korea	-	Special purpose company	Investment in securities etc.	Mortgage loan Commitment
Highest Ocean 1st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Mia 2nd, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Mia third, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Mia fourth, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment
Dujeong SG Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment
M Square Mia the first, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
We Best Cheongdam 1st, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Smart Cungdam 1st Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Yongin Sungbok 7th	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
My Best 1st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment



**Meritz Securities Co., Ltd. and its subsidiaries**  
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**2.1 The Company's equity ownership in its consolidated subsidiaries as of the reporting date is summarized as follows: (cont'd)**

Investee	December 31, 2018				
	Country	Ownership (%)	Company	Main Business	Type of control
M Square Shihung 1st Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Chams Fild Oh Kid Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Sujeong	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
DSC 1st Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Gwacheon 4th.Co., Ltd	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Cheongdam 1 <sup>st</sup> , Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Happy Tree 1 <sup>st</sup> , Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Cloud Pearl Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Grace Yeong 1 <sup>st</sup> , Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
MS Securitization Specialty Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	General loan
M Square Hyungok Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Maseehilseu 1st Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Songdo 1st Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
SLT Daehyun Co., Ltd.	Korea	-	Special purpose Company	Securitization of backed asset	Mortgage loan Commitment
Zephyrus Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
SLT Dasan Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
IFD the 2nd Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
SLT Myeongdong Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
The Nature 1st Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
AJ Holdings Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Nice Dongtan 1st Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
CFH Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan commitment
M Square Gasan Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
SH 1 <sup>st</sup> , Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Dongbu San HB 1st, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
GyeongjuYongGang 1st, Securitization	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Lyuma 2nd, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Jungdong 2nd, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Jungdong 3rd, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Baegbong 1st, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
DM Land mark 1st, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
South Lake 1st, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
MHN 1st, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment

**Meritz Securities Co., Ltd. and its subsidiaries**  
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**2.1 The Company's equity ownership in its consolidated subsidiaries as of the reporting date is summarized as follows: (cont'd)**

Investee	December 31, 2018				
	Country	Ownership (%)	Company	Main Business	Type of control
SLT Pinpoint Sindorim, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
SLT Yunoia, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
THK 4th, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
MCBH 1st, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Myeonglyun Hills 2nd, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Higs 1 <sup>st</sup> , Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Gasan D Project Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Anyang Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
SL Tiered Advisors Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Best Queens 1 <sup>st</sup> , Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
MSD bay 1 <sup>st</sup> , co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
GPI 2nd, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
SLT Believe, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
JNT 4th, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
A Star 1st, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
Hanam BS 1st, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
AK Tower 1st, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
HJJ 2nd, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
SLT Biztower, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
MS JinjeobBupyeong, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
M Ansan 1st, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
TCS 1st, Securitization	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
TCS 1st, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	General loan
DragonRiver 1st, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	General loan
The Tempest Co.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
PNJH 13th, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	General loan
GPI 1st, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	General loan
GreatGM 9th, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
ShiningRoad, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	General loan
SuseoDaeto Finance, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	General loan
Maplebay, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	General loan
GPI 4th, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	General loan
GPI 5th, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment



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**2.1 The Company's equity ownership in its consolidated subsidiaries as of the reporting date is summarized as follows: (cont'd)**

Investee	December 31, 2018				
	Country	Ownership (%)	Company	Main Business	Type of control
M Square M port 1st, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
GPI 6th, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	General loan
The K project 3rd, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	General loan
The First 1st, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
Luby 1st, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
The BlueSapphire 1st, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	General loan
Luwon SG, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
Isvill 1st, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	General loan
SLT Gamsam, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
M Square JanghangDaeto, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
SLT JanghangDaeto 1st, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
Good Iron 1st, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
MS BB, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
GPI 3rd, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	General loan
Myeonglyun Hills 3rd, Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment
HamanLogistics, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	General loan
Meritz Auto Second Securitization Specialty Co., Ltd.	Korea	-	Special purpose Company	Securitization of backed asset	ABS holding, a shareholder with the right of residuary estate
Meritz Auto Third Securitization Specialty Co., Ltd.	Korea	-	Special purpose Company	Securitization of backed asset	ABS holding, a shareholder with the right of residuary estate
Meritz Auto Fourth Securitization Specialty Co., Ltd.	Korea	-	Special purpose Company	Securitization of backed asset	ABS holding, a shareholder with the right of residuary estate
Meritz Auto Fifth Securitization Specialty Co., Ltd.	Korea	-	Special purpose Company	Securitization of backed asset	ABS holding, a shareholder with the right of residuary estate
Meritz Auto Sixth Securitization Specialty Co., Ltd.	Korea	-	Special purpose company	Securitization of backed asset	ABS holding, a shareholder with the right of residuary estate

**Meritz Securities Co., Ltd. and its subsidiaries**  
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**2.1.1 The entities included in or excluded from the scope of consolidation for the year ended December 31, 2018 are as follows:**

Included in the consolidation	Subsidiaries	Reason for consolidation
	Brain KOSDAQ Venture Investment Private Trust 2nd C-I	(*1)
	DS Quattro.V KOSDAQ Venture Investment Private Trust C-I	(*1)
	Capstone KOSDAQ Venture Investment Private Trust 11th	(*1)
	Global One KOSDAQ Venture Investment Private Trust 1st	(*1)
	Owl Public offer Investment Private Trust 2nd	(*1)
	IPARTNERS KOSDAQ Venture Investment Private Trust	(*1)
	Capstone Investment Private Trust 15th	(*1)
	Kiwoom Milestone GRMC Investment Private Trust 1st	(*1)
	Kiwoom Milestone Europe Real Estate Investment Trust 5th	(*1)
	Korean Alternative Investment Smart Education Investment Private Trust 1st	(*1)
	Dongbu San HB 1st, Co., Ltd.	(*2)
	GyeongjuYongGang 1st, Securitization	(*2)
	Lyuma 2nd, Co., Ltd.	(*2)
	M Square Jungdong 2nd, Co., Ltd.	(*2)
	M Square Jungdong 3rd, Co., Ltd.	(*2)
	M Baegbong 1st, Co., Ltd.	(*2)
	DM Land mark 1st, Co., Ltd.	(*2)
	South Lake 1st, Co., Ltd.	(*2)
	MHN 1st, Co., Ltd.	(*2)
	SLT Pinpoint Sindorim, Co., Ltd.	(*2)
	SLT Yunoia, Co., Ltd.	(*2)
	THK 4th, Co., Ltd.	(*2)
	MCBH 1st, Co., Ltd.	(*2)
	Myeonglyun Hills 2nd, Co., Ltd.	(*2)
	GPI 2nd, Co., Ltd.	(*2)
	SLT Believe, Co., Ltd.	(*2)
	SLT Pinpoint, Co., Ltd.	(*2)
	JNT 4th, Co., Ltd.	(*2)
	A Star 1st, Co., Ltd.	(*2)
	Hanam BS 1st, Co., Ltd.	(*2)
	AK Tower 1st, Co., Ltd.	(*2)
	HJJ 2nd, Co., Ltd.	(*2)
	SLT Biztower, Co., Ltd.	(*2)
	MS JinjeobBupyeong, Co., Ltd.	(*2)
	M Ansan 1st, Co., Ltd.	(*2)
	TCS 1st, Securitization	(*2)
	TCS 1st, Co., Ltd.	(*2)
	DragonRiver 1st, Co., Ltd.	(*2)
	The Tempest Co.	(*2)
	PNJH 13th, Co., Ltd.	(*2)
	GPI 1st, Co., Ltd.	(*2)
	GreatGM 9th, Co., Ltd.	(*2)
	ShiningRoad, Co., Ltd.	(*2)
	SuseoDaeto Finance, Co., Ltd.	(*2)
	Maplebay, Co., Ltd.	(*2)
	GPI 4th, Co., Ltd.	(*2)
	GPI 5th, Co., Ltd.	(*2)
	M Square M port 1st, Co., Ltd.	(*2)
	GPI 6th, Co., Ltd.	(*2)
	The K project 3rd, Co., Ltd.	(*2)
	The First 1st, Co., Ltd.	(*2)
	Luby 1st, Co., Ltd.	(*2)
	The BlueSapphire 1st, Co., Ltd.	(*2)
	Luwon SG, Co., Ltd.	(*2)

**Meritz Securities Co., Ltd. and its subsidiaries**  
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**2.1.1 The entities included in or excluded from the scope of consolidation for the year ended December 31, 2018 are as follows: (cont'd)**

	Subsidiaries	Reason for consolidation
	Isvill 1st, Co., Ltd.	(*2)
	SLT Gamsam, Co., Ltd.	(*2)
	M Square JanghangDaeto, Co., Ltd.	(*2)
	SLT JanghangDaeto 1st, Co., Ltd.	(*2)
	Good Iron 1st, Co., Ltd.	(*2)
	MS BB, Co., Ltd.	(*2)
	GPI 3rd, Co., Ltd.	(*2)
	Myeongyun Hills 3rd, Co., Ltd.	(*2)
	HamanLogistics, Co., Ltd.	(*2)
Excluded from the consolidation	Capstone Private MBS Real Estate Investment Trust No.2	(*3)
	G New Jump Short-Term Bond Investment Trust 1	(*3)
	Hastings Investment Private Trust 1st	(*3)
	CSBER01 HOLDCo	(*3)
	CSBER01 PROPCo A	(*3)
	CSBER01 PROPCo B	(*3)
	Capstone Private MBS Real Estate Investment Trust No.3	(*3)
	Haeundae Project 1 <sup>st</sup>	(*3)
	Haeundae Project 2 <sup>nd</sup>	(*3)
	Sanbon Master Plaza 1st	(*3)
	M Square Chungju 1st, Co., Ltd.	(*3)
	BK AGE Co., Ltd.	(*3)
	TH 1st Co., Ltd.	(*3)
	M Square Woodong 1 <sup>st</sup>	(*3)
	M Square Base 1 <sup>st</sup>	(*3)
	SMK 6th Co., Ltd.	(*3)
	MSD 1st Yudonghwa Co., Ltd.	(*3)
	MSD 2nd Yudonghwa Co., Ltd.	(*3)
	Smart Misa Co., Ltd.	(*3)
	M Square Middle East 1st, Inc.	(*3)
	M Mukhyeon 1st INC.	(*3)
	MDMA 1st, Co.	(*3)
	SLT Hangang Co., Ltd.	(*3)
	SLT Songdo M1 Co., Ltd.	(*3)
	Dongdaemun H 1 <sup>st</sup>	(*3)
	N.H.M.A 1st, Co., Ltd.	(*3)
	Yeksam Trinity 1st Co., Ltd.	(*3)
	H Society M	(*3)
	Wonju SG	(*3)
	We Best Dasan 1st, Co., Ltd.	(*3)
	MS Unity 3rd, Co., Ltd.	(*3)
	Hopyung-Alfheim 1st, Co., Ltd.	(*3)
	Hopyung-Alfheim 4th, Co., Ltd.	(*3)

(\*1) These are structured entities with the objective of raising capital from investors and allocating returns by investing in basic assets and are included in the consolidation scope, because the Group has existing rights to direct the relevant activities, and is not only exposed to variable returns, but also has the ability to use its power to affect the investees' returns.

(\*2) These are structured entities with the objective of investing in loans related to real estates and are included in the consolidation scope, because the Group has existing rights to direct the relevant activities, and is not only exposed to variable returns, but also has the ability to use its power to affect the investees' returns.

(\*3) The Group lost control of these entities due to liquidations, terminations of transactions, and decreases in equity ratios caused by redemptions of loans, the underlying asset.

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**2.1.2 Meritz Capital Co., Ltd**

Meritz Capital Co., Ltd. was established on March 20, 2012 and engages in the instalment financing business, facilities leasing business since May 11, 2012 and the new technology financial business since December 22, 2014 in accordance with *Specialized Credit Finance Business Act*. The Company holds 100 % of common shares of Meritz Capital Co., Ltd. by a comprehensive stock exchange on April 28, 2017.

**2.1.3 Eugene Separate Taxation High-Yield PEF No.2 and other entities**

Eugene Separate Taxation High Yield Private Equity Fund No. 2 and other entities are the collective investment vehicles that invest more than a certain percentage of funds in bonds including those with ratings of BBB+ or under in accordance with the related laws and regulations.

The acquisition dates and the percentage ownership of the Group are as follows:

Subsidiaries	Acquisition date	Ownership (%)
Eugene Separate Taxation High-Yield PE No.2	May 28, 2014	100.00
Eugene Separate Taxation High-Yield PE No.7	March 2, 2015	99.74
Yurie Separate Taxation High-Yield PE No.1	September 12, 2014	99.70
Kiwoom Separate Taxation High-Yield Private Investment Trust No.2	October 24, 2014	99.73
Koreit Separate Taxation High-Yield Private Investment Trust No. 4	October 27, 2014	100.00
Sparx Separate Taxation High-Yield Private Investment Trust No.1	December 2, 2015	99.65

**2.1.4 Smart-S 10th Securitization Specialty Co., Ltd.**

Special purpose companies using securitization assets engage in the issuance and redemption of asset backed securities through the transfer, management, operation and disposition of non-performing loans under the *Asset-Backed Securitization Act*. The Group is a shareholder with the right for remaining assets and owns all asset backed securities issued by the entities.

**2.1.5 Meritz Securitization Specialty Co., Ltd. and other entities**

Meritz Securitization Specialty Co., Ltd. was established to securitize the finance lease asset and the Group is a shareholder with the right for remaining assets and owns all asset backed securities issued by the Group.

**2.1.6 New Commons 1st and other structured entities**

Structured entities enter into secured loan commitment contracts with the Group and they operate mortgage loans through issuing ABCP.

**2.1.7 RREEF Spezial Invest GmbH trust of securities contract**

The Group consigned government and public bonds to NH Bank for 5 years from June 2, 2016 to provide as collateral, and designated the first-party beneficiary as the secured party.

### **2.1.8 Lime Investment Trust 1st and other collective investment securities**

These are collective investment securities with the objective of creating revenue by investing in IPO stocks. The acquisition dates and the percentage ownership of the Group are as follows:

Subsidiaries	Acquisition date	Ownership (%)
Lime Investment Trust 1 <sup>st</sup>	March 22, 2017	92.50
Olion IPO Multi Strategy Investment Trust 2nd	March 22, 2017	100.00
Olion IPO Multi Strategy Investment Trust 2nd C-I	March 22, 2017	66.67
Areumdeuri Investment Private Trust 1st	April 11, 2017	94.00
Bluetech Multi Fund Specialty Investment Trust 1st	July 17, 2017	91.67
Bros IPO Investment Private Trust 1st	August 3, 2016	100.00
Human Investment Trust	August 18, 2016	100.00
Assetone Private Investment Trust 1st	September 11, 2017	100.00
Milestone Private Investment Trust 1st	November 9, 2017	100.00
BNK High Yield Investment 1st	October 21, 2016	99.62
Brain KOSDAQ Venture Investment Private Trust 2nd C-I	May 3, 2018	93.67
DS Quattro.V KOSDAQ Venture Investment Private Trust C-I	May 3, 2018	93.77
High KOSDAQ Private Investment Trust 1st	May 4, 2018	100.00
Capstone KOSDAQ Venture Investment Private Trust 11th	July 25, 2018	95.14
Global One KOSDAQ Venture Investment Private Trust 1st	July 25, 2018	96.77
Owl Public offer Investment Private Trust 2nd	September 4, 2018	97.96
IPARTNERS KOSDAQ Venture Investment Private Trust	November 6, 2018	94.34
Capstone Investment Private Trust 15th	December 11, 2018	92.59

### **2.1.9 Capstone EU Investment Private Trust 1<sup>st</sup>**

It is a collective investment organization, established on March 31, 2017, with the objective of creating revenue by investing in a building in Berlin, Germany. The Group owns 99.63% shares of the entity as of December 31, 2018.

### **2.1.10 Kiwoom Milestone GRMC Investment Private Trust 1st**

It is a collective investment organization, established on November 29, 2018, with the objective of creating revenue by investing in loans secured by accounts receivable. The Group owns 100.00% shares of the entity as of December 31, 2018.

### **2.1.11 Kiwoom Milestone Europe Real Estate Investment Trust 5th**

It is a collective investment organization, established on July 27, 2018, with the objective of creating revenue by investing in real estate mortgage loans in London, England. The Group owns 100.00% shares of the entity as of December 31, 2018.

### **2.1.12 WooriAltamira Trust**

It is a collective investment organization, established on August 29, 2018, with the objective of creating revenue by investing in housing mortgage loans in Hong Kong. The Group owns 99.90% shares of the entity as of December 31, 2018.

### **2.1.13 Korean Alternative Investment Smart Education Investment Private Trust 1st**

It is a collective investment organization, established on October 11, 2018, with the objective of creating revenue by investing in private bonds for participation in gaining profit from facility deposit. The Group owns 99.32% shares of the entity as of December 31, 2018.

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2018 and 2017**

**2.2 The summary of financial information in its consolidated subsidiaries as of December 31, 2018 and 2017 are as follows (Korean won in thousands):**

Investee	December 31, 2018			
	Assets	Liabilities	Operating income	Net income (loss)
Meritz Capital Co., Ltd.	₩ 5,512,624,641	₩ 4,780,753,871	₩ 528,952,651	₩ 83,350,712
RREEF Spezial Invest GmbH trust of securities contract	1,926,490	-	-	-
Eugene Separate Taxation High-Yield PE No.2	11,711,379	3,388	653,114	509,925
Eugene Separate Taxation High-Yield PE No.7	39,129,041	72,410	1,682,427	1,245,864
Yurie Separate Taxation High-Yield PE No.1	35,131,350	8,147	1,665,522	1,395,436
Kiwoom Separate Taxation High-Yield Private Investment Trust No.2	38,395,206	22,071	2,105,466	1,847,536
Koreit Separate Taxation High-Yield Private Investment Trust No. 4	32,774,733	17,464	2,068,377	1,285,888
Sparx Separate Taxation High-Yield Private Investment Trust No.1	29,569,440	8,850	1,706,310	1,145,641
Lime Investment Trust 1st	4,010,169	1,141	249,266	163,751
Olion IPO Multi Strategy Investment Trust 2nd C-I	4,303,759	301,350	493,160	348,834
Areumdeuri Investment Private Trust 1st	5,010,533	10,707	485,721	308,095
Bluetech Multi Fund Specialty Investment Trust 1st	1,206,548	2,023	126,220	95,236
Assetone Private Investment Trust 1st	5,008,487	2,315	553,729	386,182
Milestone Private Investment Trust 1st	5,018,223	6,845	593,431	389,374
Bros IPO Investment Private Trust 1 <sup>st</sup>	4,010,402	7,925	390,018	293,681
Human Investment Trust	4,007,984	3,728	312,927	130,590
BNK High Yield Investment 1st	23,584,542	815	1,346,223	1,155,128
Capstone EU Investment Private Trust 1 <sup>st</sup>	2,367,605	3,227	49,154,816	30,020,783
Brain KOSDAQ Venture Investment Private Trust 2nd C-I	15,745,085	19,798	5,118,988	(274,722)
DS Quattro.V KOSDAQ Venture Investment Private Trust C-I	15,780,445	56,906	3,917,499	(276,459)
Capstone KOSDAQ Venture Investment Private Trust 11th	2,300,668	198,419	315,354	189,709
Global One KOSDAQ Venture Investment Private Trust 1st	3,279,042	124,836	287,847	168,526
Owl Public offer Investment Private Trust 2nd	4,814,271	11,199	179,255	142,163
WooriAltamira Trust	96,137,168	2,407,646	7,174,032	(1,521,956)
IPARTNERS KOSDAQ Venture Investment Private Trust	5,316,839	9,774	16,848	7,064
Capstone Investment Private Trust 15th	5,513,128	4,150	113,128	108,978
Kiwoom Milestone GRMC Investment Private Trust 1st	55,388,237	1,700	555,108	(453,982)
Kiwoom Milestone Europe Real Estate Investment Trust 5th	51,966,406	11,406	521,029	(190,288)
Korean Alternative Investment Smart Education Investment Private Trust 1st	10,306,384	9,081	156,393	147,303
Smart-S 10th Securitization Specialty Co., Ltd.	988,719	2,249,884	258,000	(17,949)
Meritz Securitization Specialty Co., Ltd.	848,271	-	-	-
New Commons 1st and other structured entities	3,543,174,078	3,528,588,995	141,684,915	(30,406,177)

**Meritz Securities Co., Ltd. and its subsidiaries**  
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**2.2 The summary of financial information in its consolidated subsidiaries as of December 31, 2018 and 2017 are as follows (Korean won in thousands): (cont'd)**

Investee	December 31, 2017			
	Assets	Liabilities	Operating income	Net income (loss)
Meritz Capital Co., Ltd.	₩ 4,459,210,407	₩ 3,799,868,469	₩ 224,822,235	₩ 54,714,226
G New Jump Short-Term Bond Investment Trust No.1	237,877	3	7,669	7,631
RREEF Spezial Invest GmbH trust of securities contract	1,960,006	-	44,040	44,040
Eugene Separate Taxation High-Yield PEF No.2	11,716,997	3,399	775,708	524,480
Eugene Separate Taxation High-Yield PEF No.7	39,151,048	89,921	1,981,748	972,134
Yurie Separate Taxation High-Yield PE No.1	38,924,265	9,176	1,478,422	999,540
Kiwoom Separate Taxation High-Yield Private Investment Trust No. 2	38,428,588	22,994	2,563,668	2,128,166
Koreit Separate Taxation High-Yield Private Investment Trust No. 4	37,771,156	5,013,494	1,741,777	1,309,835
Sparx Separate Taxation High-Yield Private Investment Trust No.1	29,338,559	8,578	1,860,664	1,206,615
Capstone Private MBS Real Estate Investment Trust No. 2	3,099,553	97,504	618,485	242,331
Capstone Private MBS Real Estate Investment Trust No. 3	5,329,595	327,845	1,087,468	633,354
Lime Investment Trust 1st	4,002,234	1,017	145,157	16,447
Olion IPO Multi Strategy Investment Trust 2nd C-I	6,008,509	9,245	740,798	82,883
Areumdeuri Investment Private Trust 1st	5,019,309	10,470	302,185	186,650
Bluetech Multi Fund Specialty Investment Trust 1st	1,204,021	1,927	48,086	29,061
Hastings Investment Private Trust 1st	5,013,902	2,456	186,157	55,794
Bros IPO Investment Private Trust 1st	4,007,694	7,548	143,643	7,487
Human Investment Trust	4,022,596	3,679	303,968	136,360
Capstone EU Investment Private Trust 1st	25,826,718	1,908,876	13,843,893	(2,552,788)
Assetone Private Investment Trust 1st	5,028,738	2,242	358,095	199,868
Milestone Private Investment Trust 1st	5,012,616	6,391	88,113	39,817
BNK High Yield Investment 1st	29,549,240	1,214	21,568	20,430
Smart-S 10th Securitization Specialty Co., Ltd.	1,245,144	2,488,360	822,006	470,131
Meritz Securitization Specialty Co., Ltd. (*)	827,468	-	-	-
New Commons 1st and other structured entities	1,905,173,358	1,918,370,677	85,573,813	(5,695,233)

(\*) Financial information of Meritz Securitization Specialty Co., Ltd. is the amounts in the financial statements before withdrawing the sale of finance lease receivables.



**3. Unconsolidated structured entities**

**3.1 Details of the nature of the Group's interests in unconsolidated structured entities as of December 31, 2018 are as follows:**

	<u>Purposes</u>	<u>Financing method</u>	<u>Controlling type</u>
Asset-Backed Security SPC	Securitization of assets	Issuance of ABS /ABCP secured underlying assets	Purchase commitment, etc.
Real estate finance	Develop real estate and invest in social overhead capital facilities	Loan commitment, credit line commitment	Loan commitment, credit line commitment
Shipping finance and acceptance finance	Financing to acquire vessels and to raise fund for acquisition the ownership	Investment and borrowing	Loan commitment
Investment fund and trust	Investment in securities, etc.	Sales of beneficiary certificates, investment by general partners and limited partners	Holding beneficiary certificates, investment

**3.2 Details of the Group's maximum exposure to loss from its interests in unconsolidated structured entities as of December 31, 2018 are as follows (Korean won in thousands):**

	<u>Special purpose company</u>	<u>Real estate finance</u>	<u>Investment fund and trust</u>
Total assets of unconsolidated structured entities	₩ 696,157,250	₩ 5,527,403,953	₩ 987,472,754
Assets:			
Loans receivable	29,917,056	115,539,483	63,606,923
Securities	-	1,012,500	126,848,981
	<u>₩ 29,917,056</u>	<u>₩ 116,551,983</u>	<u>₩ 190,455,904</u>
Maximum exposure to loss:			
Holding assets	29,917,056	116,551,983	190,455,904
ABCP purchase commitment	285,300,000	130,000,000	-
Conditional securities acquisition arrangement	73,360,000	17,611,000	3,143,000
Conditional loan arrangement	-	255,332,500	-
	<u>₩ 388,577,056</u>	<u>₩ 519,495,483</u>	<u>₩ 193,598,904</u>



#### **4. Summary of significant accounting policies**

##### **4.1 Basis of preparation**

The Group prepares statutory financial statements in the Korean language in accordance with Korean International Financial Reporting Standards (KIFRS) enacted by the *Act on External Audit of Stock Companies*. The accompanying consolidated financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

Significant accounting policies used to prepare the consolidated financial statements are as follows. These policies are equally applied to the consolidated financial statements for the years ended December 31, 2018 and 2017 except for standards which are effective for the annual periods beginning on or after January 1, 2018.

##### **KIFRS 1109 Financial Instruments**

KIFRS 1109 Financial Instruments replaces KIFRS 1039 Financial Instruments: Recognition and Measurement. The Group applied KIFRS 1109 for annual periods beginning on or after January 1, 2018.

The new KIFRS 1109 is retrospectively applied in principle, but there are some exceptions such as exemption of restatement of comparative information for classification, measurement, impairment of financial instruments. For hedge accounting, the requirements are generally applied prospectively, with some exceptions such as accounting for time value of options.

Major characteristics of KIFRS 1109 are financial assets being classified and measured on the basis of the holder's business model and instrument's contractual cash flow characteristics, impairment model of financial instruments based on expected credit losses (ECL), broader range of hedged items and hedging instruments that qualify for the application of hedge accounting or changes in evaluation of hedging effectiveness etc.

##### **Classification and measurement of financial assets**

KIFRS 1109 requires financial instruments to be classified as financial instruments subsequently measured 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. Hybrid contracts with hosts that are assets, are classified in their entirety instead of bifurcating the embedded derivatives.

<b>Business model</b>	<b>Contractual cash flow characteristics</b>	
	<b>Composed solely of principal and interest</b>	<b>For other cases</b>
Collecting contractual cash flows	Subsequently measured at amortized cost(*1)	FVTPL(*2)
Collecting contractual cash flows and selling	FVOCI(*1)	
Selling or other purposes	FVTPL	

(\*1) An entity may irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or reduces an accounting mismatch

(\*2) An entity may make an irrevocable election to present in other comprehensive income changes in the fair value of an investment in an equity instrument that is not held for trading.

The requirements for classifying the financial assets as measured at amortized cost or FVOCI under KIFRS 1109 are more stringent than the requirements of the current KIFRS 1039; as a result, the increase in the proportion of financial assets subject to FVTPL measurement may increase the volatility in profit or loss upon adoption of KIFRS 1109.

#### 4.1 Basis of preparation (cont'd)

##### **Classification and measurement of financial liabilities**

Under KIFRS 1109, changes in the fair value of a financial liability designated as measured at FVTPL that arise from changes in the liability's credit risk are presented in other comprehensive income, instead of profit or loss. The changes in the liability's credit risk are recognized in profit or loss if the changes create or enlarge an accounting mismatch had it been presented in other comprehensive income.

Some of the changes in the fair value of financial liabilities designated as of FVTPL, which were recognized in profit or loss under the current KIFRS 1039, are presented in other comprehensive income; therefore, gains and losses on valuation of financial liabilities may decrease.

##### **Impairment: financial assets and contract assets**

Under KIFRS 1039, impairment losses are recognized when there is objective evidence of impairment based on the incurred loss model. However, under KIFRS 1109, impairment losses are recognized on debt instruments, lease receivables, contract assets, loan commitment, and financial guarantee contracts that were accounted for at amortized cost, or FVOCI, based on the expected credit loss (ECL) impairment model.

KIFRS 1109 outlines a three-stage model for 12-month expected credit losses, or lifetime expected credit losses based on changes in credit risk since initial recognition of financial assets. As a result, credit losses can be recognized earlier than the current KIFRS 1039

Classification		Loss allowance
Stage 1	Credit risk on a financial instrument has not increased significantly since initial recognition. (*1)	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 on a financial instrument has increased significantly since 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	

(\*1) Low credit risk at the reporting date may be deemed as no significant increase in credit risk.

Under KIFRS 1109, the cumulative changes in lifetime expected credit losses since initial recognition are recognised as loss allowance for a financial asset that is considered credit-impaired at initial recognition.

##### **Hedge accounting**

KIFRS 1109 applies mechanics of hedge accounting (fair value hedge accounting, cash flow hedge, foreign entities net investment hedge) specified in the current KIFRS 1039. However, the Group changed from the complex and rule-based hedge accounting requirements of KIFRS 1039 to the principle-based approach which focuses on the risk management activities. Requirements for application of hedge accounting are relaxed by enlarging items designated as hedges and hedging instruments, evaluating the high risk avoidance effects, and eliminating the quantitative criteria (80 ~ 125%).

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**4.1 Basis of preparation (cont'd)**

The Group collectively reflected the cumulative effect of the initial application of KIFRS 1109 in the statement of financial position as of January 1, 2018. The adjustment details are as follows (Korean won in thousands) :

**Financial assets measured at FVTPL**

	December 31, 2017	Reclassification	Remeasurement	January 1, 2018	January 1, 2018 Changes in retained earning as of
Financial assets at fair value through profit or loss (KIFRS 1039)	₩ 9,919,881,110	₩ -	₩ -	₩ 9,919,881,110	₩ -
Transfer from available-for-sale financial assets (*1)	-	232,578,596	-	232,578,596	5,026,494
Transfer from loans receivables and CMA (*2)	-	66,305,997	(95,290)	66,210,707	(67,374)
Financial assets measured at FVTPL (KIFRS 1109)(*3)	<u>₩ 9,919,881,110</u>	<u>₩ 298,884,593</u>	<u>₩ (95,290)</u>	<u>₩ 10,218,670,413</u>	<u>₩ 4,959,121</u>

(\*1) Includes ₩30,575 million of investment-purpose shares, ₩19,066 million of investments corresponding to puttable financial instruments, ₩113,174 million of beneficiary securities, ₩12,455 million of collective fund for default loss, ₩30,192 million of corporate bond of which the contractual cash flows are not solely payments of principal and interest and ₩27,166 million of hybrid financial instruments.

(\*2) Includes ₩3,029 million of private bond of which the contractual cash flows are not solely payments of principal and interest and ₩63,277 million of notes discounted and loans held for sale corresponding to other business models.

(\*3) Includes CMA corresponding to other business models.

**Financial assets measured at FVOCI**

	December 31, 2017	Reclassification	Remeasurement	January 1, 2018	January 1, 2018 Changes in retained earning as of
Available-for-sale financial assets (KIFRS 1039)	₩ 1,251,665,821	₩ -	₩ -	₩ 1,251,665,821	₩ -
Transfer to financial assets measured at FVTPL (*)	-	(232,578,596)	-	(232,578,596)	-
Measurement of expected credit losses	-	-	-	-	(7,780,735)
Financial assets measured at FVOCI (KIFRS 1109)	<u>₩ 1,251,665,821</u>	<u>₩ (232,578,596)</u>	<u>₩ -</u>	<u>₩ 1,019,087,226</u>	<u>₩ (7,780,735)</u>

(\*) Includes ₩30,575 million of investment-purpose shares, ₩19,066 million of investments corresponding to puttable financial instruments, ₩113,174 million of beneficiary securities, ₩12,455 million of collective fund for default loss, ₩30,192 million of corporate bond of which the contractual cash flows are not solely payments of principal and interest and ₩27,166 million of hybrid financial instruments.

**Meritz Securities Co., Ltd. and its subsidiaries**  
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**4.1 Basis of preparation (cont'd)**

**Amortized cost measurement of loans and CMA**

	December 31, 2017	Reclassification	Remeasurement	January 1, 2018	January 1, 2018 Changes in retained earning as of
Loans and CMA (KIFRS 1039)	₩ 8,528,637,489	₩ -	₩ -	₩ 8,528,637,489	₩ -
Transfer to financial assets measured at FVTPL (*)	-	(66,305,997)	-	(66,305,997)	-
Measurement of expected credit losses	-	-	(1,089,388)	(1,089,388)	(882,080)
Loans and receivables (KIFRS 1109)	<u>₩ 8,528,637,489</u>	<u>₩ (66,305,997)</u>	<u>₩ (1,089,388)</u>	<u>₩ 8,461,242,104</u>	<u>₩ (882,080)</u>

(\*) Includes ₩3,029 million of private bond of which the contractual cash flows are not solely payments of principal and interest and ₩63,277 million of notes discounted and loans held for sale corresponding to other business models.

**Lease receivable measured of amortized cost**

	December 31, 2017	Reclassification	Remeasurement	January 1, 2018	January 1, 2018 Changes in retained earning as of
Lease receivable (KIFRS 1039)	₩ 1,107,606,416	₩ -	₩ -	₩ 1,107,606,416	₩ -
Measurement of expected credit losses	-	-	(1,569,486)	(1,569,486)	(1,198,990)
Lease receivable (KIFRS 1109)	<u>₩ 1,107,606,416</u>	<u>₩ -</u>	<u>₩ (1,569,486)</u>	<u>₩ 1,106,036,930</u>	<u>₩ (1,198,990)</u>

**Financial liabilities measured at FVTPL**

	December 31, 2017	Reclassification	Remeasurement	January 1, 2018	January 1, 2018 Changes in retained earning as of
Financial liabilities at fair value through profit or loss (KIFRS 1039)	₩ 447,145,121	₩ -	₩ -	₩ 447,145,121	₩ -
Credit risk fluctuation	-	-	(586,826)	(586,826)	400,688
Financial liabilities measured at FVTPL (KIFRS 1109)	<u>₩ 447,145,121</u>	<u>₩ -</u>	<u>₩ (586,826)</u>	<u>₩ 446,558,295</u>	<u>₩ 400,688</u>

**Other financial assets**

	December 31, 2017	Reclassification	Remeasurement	January 1, 2018	January 1, 2018 Changes in retained earning as of
Other financial assets (KIFRS 1039)	₩ 615,739,563	₩ -	₩ -	₩ 615,739,563	₩ -
Measurement of expected credit losses	-	-	543,876	543,876	416,035
Other financial assets (KIFRS 1109)	<u>₩ 615,739,563</u>	<u>₩ -</u>	<u>₩ 543,876</u>	<u>₩ 616,283,439</u>	<u>₩ 416,035</u>

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**4.1 Basis of preparation (cont'd)**

**Provisions**

	December 31, 2017	Reclassification	Remeasurement	January 1, 2018	January 1, 2018 retained earnings variance
Provisions (KIFRS 1039)	₩ 2,070,024	₩ -	₩ -	₩ 2,070,024	₩ -
Measurement of expected credit losses	-	-	6,100,535	6,100,535	(4,572,942)
Provisions (KIFRS 1109)	₩ 2,070,024	₩ -	₩ 6,100,535	₩ 8,170,559	₩ (4,572,942)

**Adjustments details of allowance for bad debt and provisions by measurement category (Korean won in thousands) :**

	December 31, 2017	Reclassification	Remeasurement	January 1, 2018
Debt securities measured at FVOCI	₩ -	₩ -	₩ 7,780,735	₩ 7,780,735
Financial assets at amortised cost				
Loans, receivables and CMA	125,022,044	(528,299)	1,089,388	125,583,133
Lease receivable	10,654,620	-	1,569,486	12,224,106
Other financial assets	4,820,701	-	(543,877)	4,276,824
	₩ 140,497,365	₩ (528,299)	₩ 9,895,732	₩ 149,864,798
Off balance accounts				
Commitments on loans	-	-	5,789,070	5,789,070
ABCP purchase agreement and acquisition agreement	-	-	311,465	311,465
	₩ -	₩ -	₩ 6,100,535	₩ 6,100,535

**KIFRS 1115 Revenue from Contracts with Customers**

KIFRS 1115 establishes a five-step model to account for revenue arising from contracts with customers. Under KIFRS 1115, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under KIFRS. KIFRS 1115 applies for annual periods beginning on or after January 1, 2018.

#### **4.1 Basis of preparation (cont'd)**

The Group has not early adopted any other standard, interpretation, or amendment that has been issued but is not yet effective.

Management of the Group is using many assumptions and reasonable estimates to create the consolidated financial statements on the basis of KIFRS. In applying the accounting policies of the Group, the management's judgment is required under KIFRS. Parts that require significant judgments and complexity or parts of which estimations and assumptions have significant impact on the preparation of the consolidated financial statements are disclosed in note 5.

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below.

##### **KIFRS 1116 Leases**

KIFRS 1116 Leases enacted in May 2017, is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies KIFRS 1115 Revenue from Contracts with Customers. This standard replaces KIFRS 1017 *Leases*, KIFRS 2104 *Determining whether an Arrangement contains a Lease*, KIFRS 2015 *Operating Leases-Incentives* and KIFRS 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Company must determine whether the contract itself is a lease or the contract includes a lease according to this standard on the first application date not only on the contract date. However, an entity may not re-determine all contracts by applying the simplified method for contracts prior to the first application date.

The lessee and the lessor must account for each lease element of the lease in a contract that includes a lease or lease separately from the non-lease element.

A lessee will recognize a right-of-use asset representing the right to use the underlying asset (i.e., the lease asset) and the lease liability representing the duty to pay lease payments. However, it is allowed to select exemptions of the standard for the short-term lease(leases with a lease term of 12 months or less at the beginning of the lease date) and for the 'low-value' assets(e.g. underlying assets of \$ 5,000 or less). In addition, the lessee can use the simplified method which is accounting for each lease element and related non-lease element as one lease element instead of separating the non-lease element from the lease element. A lessee can choose to apply the standard using either a method of applying retrospectively to each of the historical reporting periods under KIFRS 1008 *Accounting policies, changes in accounting estimates and errors* (i.e., fully retrospective), or a retroactive application to recognize cumulative effect of the initial application on the first application date (i.e., Interim measures to collectively adjust cumulative effects).

Lessor accounting under KIFRS 1116 is not significantly changed from today's accounting under KIFRS 1017.

These amendments are not expected to have significant impact on the Group's financial statements.

## **4.2 Principles of consolidation**

### **4.2.1 Subsidiaries**

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Subsidiaries are no longer consolidated from the date on which the Group loses control over them. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain the benefits from its activities. The Group consolidates special purpose entities if the substance of its relationship with them indicates that it has control over them. The Group considers the existence and influence of exercisable or convertible voting rights when evaluating its subsidiaries.

All significant intercompany transactions and account balances among consolidated companies are eliminated on consolidation. Unrealized gains or losses included in loans and borrowings arising from transactions between consolidated companies are eliminated on consolidation. The related accounts receivable and payable are also eliminated on consolidation. The accounting Policies of subsidiaries can be revised on consolidation in consistency policies the Group has adopted.

### **4.2.2 Non-controlling interests**

Non-controlling interests must be presented in the consolidated statement of financial position within equity, separate from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Some puttable financial instruments or some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation are not accounted as the residual equity in consolidated financial statements, therefore, those non-controlling interests are classified as financial liabilities in the consolidated financial statement.

### **4.2.3 Investments in associates**

Associates are the entities that the Group has significant effect on, but has no controlling power and the Group generally owned its equity in 20~50% of their shares with voting rights by the Group. The Group's consolidated financial statements reflects investment in an associate in using the equity method and the amount of Investment in an associate include goodwill which is acquisition cost less any accumulated impairment losses.

After acquiring shares of an associate, the Group's share of the current income (loss) of the associate is recognized as current income (loss) of the Group, and the Group's share of changes in the retained earnings of the associate is recognized as the retained earnings of the Group. If the Group's share of the loss of the associate is the same as or above the Group's investment interest including other plain bond of the associate, the Group no longer recognizes a loss unless the Group is liable for paying or has to pay the associate's debt.

When signs of damage are not aroused, the Group's share in the investee's unrealized profits and losses resulting from transactions between the Group and its investee are eliminated to the extent of the interest in the investee. And when necessary, adjustments are made to the financial statements of associates to bring their accounting policies in line with those used by the Group.

## **4.3 Operating segment reporting**

Operating segments are disclosed in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing the performance of the operating segments.



#### **4.4 Foreign exchange**

##### **4.4.1 Functional currency**

When preparing for the consolidated financial statements, the Group measures and recognizes all the transactions according to the functional currency, used to conduct operating activities in the primary economic environment. Consolidated Financial statements are expressed in Korean won.

##### **4.4.2 Translation of foreign currency transactions and balances at the end of the reporting period**

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the reporting date and its exchange differences are recognized in net income for the period in which they arise. The Group applies a year-end exchange rate to non-monetary assets and liabilities measured at fair value in the consolidated statements of financial position. If valuation gain or loss on fair value is recognized as current income, foreign currency translation gain or loss is recognized in current income. If valuation gain or loss on non-monetary items is recognized in other comprehensive income, foreign currency translation gain or loss is recognized in other comprehensive income. Non-monetary items not measured at fair value are translated using the exchange rates as of the date of the initial transaction and have no exchange differences.

Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the predictable future (therefore forming part of the net investment in the foreign operation), are recognized initially in other comprehensive income and reclassified from equity to net income on disposal or partial disposal of the net investment.

##### **4.4.3 Translation of the Group's foreign operation**

As of the reporting date, the assets and liabilities of subsidiaries and overseas branches are translated into the Group's presentation currency, Korean won (KRW), at the rate of exchange as of the reporting date, and their statements of profit or loss and other comprehensive income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity.

#### **4.5 Cash and cash equivalents**

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

#### **4.6 Financial instruments – initial recognition and subsequent measurement**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### **4.6.1 Financial instruments – Initial recognition and measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under KIFRS 1115.



#### **4.6.1 Financial instruments – Initial recognition and measurement (cont'd)**

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

#### **4.6.2 Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition
- Financial assets at fair value through profit or loss

##### **4.6.2.1 Financial assets at amortised cost (debt instruments)**

The Group measures financial assets at amortised 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 and
- 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

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

##### **4.6.2.2 Financial assets at fair value through OCI (debt instruments)**

The Group 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
- And
- 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

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and other comprehensive income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

##### **4.6.2.3 Financial assets designated at fair value through OCI (equity instruments)**

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under KIFRS 1032 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

#### **4.6.2.4 Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes derivatives and equity instruments that do not make an irrevocable choice to treat changes in fair value through other comprehensive income.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

#### **4.6.3 Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### **4.6.4 Impairment of financial assets**

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

#### **4.7 Regular way trades**

Equity securities, debt securities, derivatives, which are traded in the KRX or qualified foreign exchange markets, are treated as regular way trades. The Group's specific accounting policies about regular way trades are described below.

##### **4.7.1 Proprietary trading**

As for proprietary trading, purchase or sale of the asset that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognized or derecognized on the trading date.

##### **4.7.2 Trading on consignment**

As for trading on consignment, the Group serves a clientele of investors who trade public stocks and other securities and recognizes the brokerage fees on the trading date. Until the settlement date of the trading on consignment, the Group does not offset the receivables and payables to customers and offsets the receivables and payables to the KRX.

#### **4.8 Derivative financial instruments and hedge accounting**

Derivatives instruments are initially recognized at fair value on the contract date and are subsequently revalued at their fair value. Derivative instruments are accounted differently depending on whether hedge accounting is applied, and therefore, are classified into trading purpose derivatives and hedging purpose derivatives. In a hedge relationship, when a hedge item is any asset, liability or unrecognized fixed contract, which is exposed at the possibility that its some or entire fair value is fluctuated by the specified risks, fair value hedge accounting is applied. In another way, when a hedge item is any asset, liability or expected highly probable transaction, which is exposed at the possibility that its cash flow is fluctuated by the specified risk, cash flow hedge accounting is applied. For trading purpose derivative transaction, changes in the fair value of derivatives are recognized in net income.

At the inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. Also, at the inception of the hedge relationship, a formal assessment is undertaken to ensure that the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item and the actual result.

##### **4.8.1 Fair value hedges**

The change in the fair value of an interest rate hedging derivative is recognized in finance costs in the statement of comprehensive income. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognized in finance costs in the statement of comprehensive income.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through the statement of comprehensive income over the remaining term up to maturity. Effective interest rate amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the statement of comprehensive income.

#### **4.8.2 Cash flow hedges**

The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in finance costs in the statement of comprehensive income.

Amounts recognized as other comprehensive income are transferred to the statement of comprehensive income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as other comprehensive income are transferred to the initial carrying amount of the nonfinancial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity are transferred to the statement of comprehensive income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

#### **4.8.3 Embedded derivatives**

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives. When their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured by fair value through profit or loss.

#### **4.9 'Day 1' profit or loss recognition**

When the transaction price is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the differences between the transaction price and fair value (a 'Day 1' profit or loss) in 'net trading income'.

In case where fair value is determined using data which is not observable, the difference between the transaction price and model value is deferred and amortized over the life of the associated instrument using the straight-line method.

#### **4.10 Interest income and interest expense**

The Group recognizes interest income and interest expense using the effective interest rate method on an accrual basis. When a financial instrument bearing interest is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at its original effective interest rate of the instrument, and continues unwinding the discount as interest income.

#### **4.11 Fees and commission revenue**

The Group generates fees and commission is from a wide range of services provided to the counterparty. Fees and commission revenue is recognized for the transfer of promised goods or services to customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. In accordance with the 5 step revenue recognition model below. However, fees and commission which are part of the effective interest on the financial instrument, are recognized by the effective interest rate method.

Step 1 : Identify the contracts with a customer

Step 2 : Identify performance obligations in the contract

Step 3 : Determine the transaction price

Step 4 : Allocate the transaction price to the performance obligations in the contract

Step 5 : Recognize revenue when (or as) the entity satisfies a performance obligation (or as they are satisfied over time)

#### **4.12 Dividend income**

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

#### **4.13 Bonds purchased under resale agreements and bonds sold under repurchase agreements**

Securities purchased under agreements to resell at a specified future date ("reverse repos") are recorded in the statement of financial position as bonds purchased under repurchase agreements in the other loans. Conversely, securities sold under agreements to repurchase at a specified future date ("repos") are recorded in the statement of financial position as bonds sold under repurchase agreements in the other borrowing liabilities. Interest income and expense incurred from reverse repo and repo transactions are recorded as interest income on loan and interest expense on borrowings, respectively in the statement of comprehensive income.

#### **4.14 Property and equipment**

Property and equipment is stated at cost including transaction costs, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Land is not depreciated. The estimated useful lives are as follows:

	<u>Useful life (years)</u>
Buildings	40
Vehicles	4
Furniture and fixtures	4

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'Other operating income' in the statement of comprehensive income in the year the asset is derecognized.

#### **4.15 Investment properties**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at depreciated cost.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized through profit or loss in the period of derecognition. And transfers are made to or from investment property only when there is a change in use.

#### **4.16 Intangible assets**

##### **4.16.1 Software**

Software acquired separately are measured on initial recognition at cost. The software with finite lives are carried at cost less any accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful life of the asset.

##### **4.16.2 Intangible assets with indefinite useful lives**

Intangible assets with indefinite useful lives are not amortized, but are annually tested for impairment. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

#### **4.17 Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If indication exists, or when annual impairment testing for an asset is required, the Group estimates the assets recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

After recognition of the impairment of non-financial assets, if there is a change in the assumptions used to determine the asset's recoverable amount, a previously recognized impairment loss is reversed. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the statement of comprehensive income.

#### **4.18 Lease**

The classification of leases is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

##### **4.18.1 Finance lease**

The Group classifies a finance lease when the risks and rewards of ownership of the leased asset are transferred to the lessee, and Lease assets are recognized capital lease receivables at the same amount as the net investment in the lease at inception of the lease. Also, capital lease receivables include initial direct costs such as commissions, legal fees and internal costs occurring in negotiating and contracting the lease. On the other hand, the Group recognized lease fee separately as repayment of finance lease receivables and interest income. Then, interest income is recognized using the effective interest method for uncollected net investment of finance lease

##### **4.18.2 Operating lease**

The Group classifies a lease that doesn't transfer substantially all the risks and rewards incidental to ownership to the lessee as an operating lease, and states it as a form deducting accumulated depreciation from operating lease acquisition cost. Also, the minimum lease payments excluding retained residual value are recognized as revenue, evenly distributed over the lease term. Meanwhile, initial direct costs incurred by lessors in negotiating and arranging the lease contract are added to the carrying amount of the operating lease assets and recognized as an expense over the period of the lease contract corresponding to the amount of lease revenues. Operating lease assets are depreciated over their estimated useful life (from 3 to 5 years).



#### **4.19 Retirement benefits**

##### **4.19.1 Defined benefit pension plans**

The Group classifies all pension plans under defined benefit pension plans (“DB plan”) except for pension plans under the defined contribution pension plan (“DC plan”). The retirement benefit liabilities recognized in the consolidated statements of financial position represents the present value of the defined benefit obligation reduced by the fair value of plan assets.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method by an independent actuary. The present value of defined benefit obligation is computed by discounting expected future cash outflows with market rate of return measured against the yield of high-graded corporate bond whose date of payment and maturity is similar to that of a defined benefit obligation. Actuarial gains and losses, incurred from the change in actuarial assumptions and the difference between the assumptions and the actual results, are recognized in other comprehensive income for the period.

If the calculated net value is an asset when the fair value of plan assets is deducted from the present value of defined benefit liabilities, the asset is recognized up to accumulated unrealized past service cost and the present value of an economic benefit available in the form of a refund from the pension plan or a saving of future contributions.

Unrecognized prior service cost, a change in the present value of defined benefit pension plan for employees’ past services which is incurred by introduction or changes of severance payment, is immediately recognized in current expense for the period in which it arises.

##### **4.19.2 Defined contribution pension plans**

As the Group operates a DC plan, the amount of contribution that the Group has to pay is recognized as the employee benefit expense.

#### **4.20 Income tax expenses and deferred tax assets and liabilities**

Income taxes comprise of current and deferred taxes. All items related to taxes, other than those recognized directly in equity, are accounted for in the statement of comprehensive income. Accordingly, items recognized directly in equity and the related income taxes are accounted for in the ‘Other operating income’.

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. If the applied tax laws require an interpretation, the Group calculates income tax payable expected to be paid to the taxation authorities based on the opinion made when the taxes were reported.

Deferred tax is provided on the temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred liabilities are recognized for all taxable temporary differences, except:

When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit loss.

In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### **4.21 Recognition and measurement of financial liabilities**

Financial liabilities are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

##### **4.21.1 Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as of fair value through profit or loss. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. All financial liabilities including an embedded derivative separated from the host contract are reclassified as financial liabilities at fair value through profit or loss except for financial liabilities designated as effective hedging instruments or financial guarantee contracts. After initial recognition, the changes in the fair value of the financial liabilities at fair value through profit or loss and the related interest expenses are recognized as profit or loss. The Group has designated derivative-linked securities sold by the Group as financial liabilities at fair value through profit or loss.

##### **4.21.2 Financial liabilities measured at amortized cost**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost. The difference between the amount received less transaction costs and the amount repaid is amortized using the effective interest rate method and recognized as interest expense over the term of the borrowing.

Commissions paid in accordance with the terms of the borrowing agreements are recognized as transaction costs for the borrowings when it is highly probable that a portion or entirety of borrowings are made. The recognition of expenses thereof is deferred until the borrowings are withdrawn. If there is no evidence that it is highly probable a portion or entirety of the borrowings will be made, the payments are recorded as prepaid expenses for liquidity services and are amortized over the contractual period.

##### **4.21.3 Derecognition of financial liabilities**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income. Meanwhile, the group has designated derivatives linked securities sold by the group as financial liabilities at fair value through profit or loss.

#### **4.22 Fair value of financial instruments**

Financial assets and financial liabilities traded in active markets at the reporting date are based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models. These techniques incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments. Valuation techniques which provide reliable estimates on mark-to-market prices are applied.



#### **4.22 Fair value of financial instruments (cont'd)**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for similar assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

#### **4.23 Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, 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.

#### **4.24 Capital stock**

Common stock issued is classified as a capital stock in the statement of financial position and additional stock issuance costs or incremental costs related to the stock issuance are recorded as a deduction from issued capital net of tax effects.

#### **4.25 Dividends**

Dividends on common stock are deducted from the Group's equity and recognized as a liability when the shareholders' meeting of the Group approves the dividends.

#### **4.26 Transaction under common control**

The Group accounts transactions under common control based on book value. Assets and liabilities of participated entities are recognized book value of the date of transaction, and the difference between payment and book value is reflected in capital.

## **5. Significant judgements and accounting estimates**

The preparation of the Group's consolidated financial statements requires the management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Group's accounting policies, the management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

### **5.1 Impairment of financial assets**

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

### **5.2 Impairment of non-financial assets**

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

### **5.3 Income taxes**

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

### **5.4 Tax for the promotion of collaborative investment cooperation**

In accordance with the tax for the promotion of collaborative investment cooperation, when a certain amount of taxable income of three years from 2018 is not used for investment and wage increases, the Group will be obligated to pay additional income taxes calculated based on the methods provided in the Tax Law. As a result, the Group reflects the effect of tax for the promotion of collaborative investment cooperation on the income tax for the corresponding years, and the tax liability of the Group may vary depending on the level of investment and wage growth in each year.

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**6. Operating segment information**

The Group is organized into three operating segments based on their products and services and the details are presented below:

- Securities business: Brokerage service, proprietary trading and underwriting of securities
- Merchant banking: Issue, discount and trading of promissory note or bond, investment and loan of facilities or working capital, payment guarantees, and management of CMA
- Credit-Specialized financial business: Equipment rental business, credit card business, installment financing business, new technology business financing etc.
- Head office : Head office segment exclude segments above
- Others: The proportion of operating segment of the consolidated subsidiaries was not important in terms of the Group.

The financial information of the operating segments for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018						
	Securities business	Merchant banking	Credit-specialized financial business (*3)	Head Office	Others	Consolidated adjustments	Total
Total revenue	₩ 8,192,043,311	₩ 69,489,951	₩ 536,417,189	₩ 22,455,494	₩ 241,998,026	₩ (238,061,628)	₩ 8,824,342,343
Total expense	(7,697,046,896)	(25,313,364)	(426,394,843)	(84,531,867)	(228,830,237)	226,997,312	(8,235,119,895)
Income (loss) before income tax expense	494,996,415	44,176,587	110,022,346	(62,076,373)	13,167,789	(11,064,316)	598,222,448
income tax expense (*1)	(159,018,701)	(14,425,825)	(26,671,634)	45,297,806	7,499	(588,569)	(155,399,424)
Net income (loss)	₩ 335,977,714	₩ 29,750,762	₩ 83,350,712	₩ (16,778,567)	₩ 13,175,288	₩ (11,652,885)	₩ 433,823,024
Assets(*2)	21,412,207,875	2,274,048,353	5,512,624,641	-	3,772,609,743	(1,809,679,555)	31,161,811,057
Liabilities(*2)	18,596,225,244	1,698,529,410	4,780,753,871	-	3,459,900,147	(846,710,883)	27,688,697,789

  

	Year ended December 31, 2017						
	Securities business	Merchant banking	Credit-specialized financial business (*3)	Head Office	Others	Consolidated adjustments	Total
Total revenue	₩ 625,207,153	₩ 335,469,671	₩ 224,871,882	₩ 4,048,197,400	₩ 162,488,533	₩ (70,694,564)	₩ 5,325,540,075
Total expense	(445,445,005)	(129,947,607)	(154,391,576)	(4,037,894,401)	(140,828,641)	49,337,357	(4,859,169,873)
Income (loss) before income tax expense	179,762,148	205,522,064	70,480,306	10,302,999	21,659,892	(21,357,207)	466,370,202
income tax expense (*1)	(43,380,334)	(49,596,736)	(15,733,017)	(2,486,327)	(164,024)	227,433	(111,133,005)
Net income (loss)	₩ 136,381,814	₩ 155,925,328	₩ 54,747,289	₩ 7,816,672	₩ 21,495,868	₩ (21,129,774)	₩ 355,237,197
Assets(*2)	14,985,764,903	2,998,245,210	4,459,210,407	-	2,207,071,723	(1,199,727,031)	23,450,565,212
Liabilities(*2)	12,155,527,086	2,517,076,266	3,799,835,406	-	1,928,387,016	(262,863,941)	20,137,961,833

(\*1) The amount is allocated to net income before income tax of each segment for 2018 and 2017.

(\*2) The total assets and liabilities represent the amount as of December 31, 2018 and 2017.

(\*3) As a result of the Inclusion of Meritz Capital Co., Ltd. into the Group's consolidation by the comprehensive share exchange, credit specialized financial business has been added in 2017.

The measured amounts in each segment are reported to the chief operating decision maker for the purpose of assessing the performance of each segment.

The geographic operating revenue information and the geographic non-current assets information for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018		Year ended December 31, 2017	
	Domestic	Overseas	Domestic	Overseas
Operating revenue	₩ 8,739,417,969	₩ -	₩ 5,297,465,661	₩ -
Non-current assets (*)	141,809,952	-	145,828,365	-

(\*) Represents the amount as of December 31, 2018 and 2017.

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**7. Cash and due from banks**

Cash and due from banks as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash and cash equivalents:		
Current deposits	₩ 514,686	₩ 816,935
Demand deposits	73,164,890	138,207,306
Foreign currency deposit	16,796,392	8,614,500
Time deposits	72,000,000	-
MMDA	118,100,000	246,700,000
Others	<u>701,252,879</u>	<u>632,010,168</u>
	₩ 981,828,847	₩ 1,026,348,909
Due from banks in Korean won:		
Reserve for claims of customers Deposits(*)	103,000,000	194,000,000
Margin on securities market	12,000,000	11,000,000
Guarantee deposits for securities Borrowed	83,804,556	12,281,321
Guarantee deposits for trading futures and options	101,442,800	49,946,101
Long - term deposits	368,200,000	46,600,000
Restricted deposits etc.	186,500	164,500
Other deposits	<u>293,833,733</u>	<u>63,134,110</u>
	₩ 962,467,589	₩ 377,126,032
	<u>₩ 1,944,296,436</u>	<u>₩ 1,403,474,941</u>

(\*) Pursuant to the *Financial Investment Services and Capital Markets Act*, the Group is required to place a deposit on a daily basis in Korea Securities Finance Corporation ("KSFC") as a reserve against customers' deposits for the trading of stocks, derivatives and for other purposes. These deposits should exceed the amount which is calculated by deducting cash commission guarantee from total customers' deposit.

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**8. Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Book value (Fair value)	
	December 31, 2018	December 31, 2017
Fair value through profit or loss measurement item:		
Equity securities and investments	₩ 263,267,200	₩ 444,515,177
Debt securities:		
Government and public bonds	3,258,544,381	1,784,865,409
Special purpose bonds	3,632,257,918	4,395,631,684
Corporate bonds	2,404,363,832	2,097,561,461
Collective investment securities	756,905,974	306,884,466
Commercial papers	161,221,978	121,257,270
Asset backed short-term bonds	63,359,786	-
Foreign currency securities	517,662,367	136,858,628
Loans	357,647,892	-
Hybrid financial instruments	332,697,475	-
Reserve for claims of customers' deposits (trust) (*2)	461,736,495	-
Collective fund for default loss	22,890,102	-
Equity linked securities	4,895,906	-
Stock warrant	2,310,208	-
Derivative linked securities	485,575	-
Others	61,307,401	-
Credit risk adjustments	(7,795)	-
Deferred day 1 profit or loss	(3,685,795)	-
	₩ 12,297,860,900	₩ 9,287,574,095
Derivative assets held for trading:		
Interest rate derivatives	79,280,496	45,667,924
Foreign currency derivatives	13,199,669	8,185,412
Equity derivatives	278,989,435	35,129,501
Stock price index derivatives	783,398	1,324,178
Credit	78,037	418,856
Others	31,611,631	1,058,188
Credit risk adjustments	(1,562,038)	(589,186)
Deferred day 1 profit or loss	188,290	687,486
	₩ 402,568,918	₩ 91,882,359
Financial assets at fair value through profit or loss (*1):		
Equity-linked securities	-	495,968
Reserve for claims of customers' deposits (trust) (*2)	-	372,231,592
Others	-	167,700,063
Credit risk adjustments	-	(707)
Deferred day 1 profit or loss	-	(2,260)
	₩ -	₩ 540,424,656
	₩ 12,700,429,818	₩ 9,919,881,110

**8. Financial assets at fair value through profit or loss (cont'd)**

(\*1) As of December 31, 2017, the Group designated derivative-linked securities, reserve for claims of customers' deposits (trust), and other financial assets as measured at fair value through profit or loss. As of December 31, 2018, the financial assets were reclassified as measured at FVTPL in accordance with KIFRS 1109.

(\*2) Pursuant to the *Financial Investment Services and Capital Markets Act*, the Group is required to place a deposit on a daily basis in Korea Securities Finance Corporation ("KSFC") as a reserve against customers' deposits for the trading of stocks, derivatives and for other purposes. These deposits should exceed the amount which is calculated by deducting cash commission guarantee from total customers' deposit.

**9. Financial assets designated at FVOCI**

Financial assets measured at FVOCI as of December 31, 2018 is as follows (Korean won in thousands):

	Book value (Fair value)	
Equity securities and investments*	₩	200,117,353
Debt securities:		
Special purpose bonds		99,967,054
Corporate bonds		485,324,712
Commercial papers		25,001,221
	₩	<u>810,410,340</u>

(\* ) Equity securities acquired by law for contribution and acquisition, donation and public or business collaboration purposes were classified as fair value through other comprehensive income financial assets.

Gain (loss) on valuation of financial assets measured at FVOCI as of December 31, 2018 is as follows (Korean won in thousands):

	Acquisition cost	Amortized cost	Accumulated expected credit losses	Fair value	Gain(loss) on valuation
Equity securities					
marketable stock	₩ 136,376	₩ -	₩ -	₩ 136,376	₩ 4986
Non marketable stock	93,333,768	-	-	199,930,911	106,597,223
	₩ 93,470,144	₩ -	₩ -	₩ 200,117,353	₩ 106,647,209
Debt securities:					
Special purpose bonds	99,815,544	99,942,721	-	99,967,054	24,333
Corporate bonds	482,916,841	484,876,090	(2,848,081)	485,324,712	3,296,703
Commercial papers	25,000,000	25,000,000	(316,671)	25,001,221	317,892
	₩ 607,732,385	₩ 609,818,811	₩ (3,164,752)	₩ 610,292,987	₩ 3,638,928
	₩ 701,202,529	₩ 609,818,811	₩ (3,164,752)	₩ 810,410,340	₩ 110,286,137

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**9. Financial assets designated at FVOCI (cont'd)**

Changes in valuation gain (loss) on valuation of financial assets measured at FVOCI for the year ended December 31, 2018 is as follows (Korean won in thousands):

	Beginning balance	Effect of changes in accounting standards	Reclassification	Changes in credit losses	Gain (loss) on valuation	Ending balance
Equity securities:						
Marketable equity securities	₩ 47,401	₩ (34,822)	₩ -	₩	₩ 37,407	₩ 49,968
Non-marketable equity securities	102,375,237	551,579	-		3,670,407	106,597,223
Income tax effect	(27,080,546)	(136,630)	-		(2,014,824)	(29,232,000)
	<u>75,342,002</u>	<u>380,127</u>	<u>-</u>		<u>1,692,990</u>	<u>77,415,209</u>
Debt securities						
Special purpose bonds	29,957	-	(29,957)		24,333	24,333
Corporate bonds	(357,840)	5,115,024	737,716	(2,263,616)	65,419	3,296,703
	Beginning balance	Effect of changes in accounting standards	Reclassification	Changes in credit losses	Gain (loss) on valuation	Ending balance
Collective investment securities	7,299,901	(7,299,901)	-	-	-	-
Commercial papers	80,097	2,669,038	(79,049)	(2,352,367)	173	317,892
Income tax effect	(1825,540)	1,890,461	(151,330)	1,265,241	2,176,262	(997,430)
	<u>5,226,575</u>	<u>2,374,622</u>	<u>477,380</u>	<u>(3,350,742)</u>	<u>2,086,337</u>	<u>2,641,498</u>
	<u>₩ 80,568,667</u>	<u>₩ 2,754,749</u>	<u>₩ 477,380</u>	<u>₩ (3,350,742)</u>	<u>₩ (393,347)</u>	<u>₩ 80,056,707</u>

There were no equity securities measured at FVOCI derecognized during the current period.

Residual maturity profiles of debt securities in financial assets measured at FVOCI as of December 31, 2018 is follows (Korean won in thousands):

	No later than 1 year	After 1 year but no later than 5 years	After 5 year but no later than 10 years	Total
Special purpose bonds	₩ 99,967,054	₩ -	₩ -	₩ 99,967,054
Corporate bonds	443,593,872	41,730,840	-	485,324,712
Commercial paper	25,001,221	-	-	25,001,221
	<u>₩ 568,562,147</u>	<u>₩ 41,730,840</u>	<u>₩ -</u>	<u>₩ 610,292,987</u>



**9. Financial assets designated at FVOCI (cont'd)**

Changes in expected credit losses on debt securities in financial assets measured at FVOCI for the year ended December 31, 2018 is as follows (Korean won in thousands):

	12 month expected credit loss	Lifetime expected credit losses	Impaired loans Lifetime expected credit losses	Total
Beginning accumulated expected credit losses	₩ -	₩ -	₩ -	₩ -
Effect of changes in accounting standards	7,780,735	-	-	7,780,735
Transfer to 12 month expected credit loss	-	-	-	-
Transfer to lifetime expected credit losses	-	-	-	-
Transfer to lifetime Impaired loans Lifetime expected credit losses	-	-	-	-
Utilized	-	-	-	-
Provision (reversal) for possible loan losses	(4,615,983)	-	-	(4,615,983)
Ending accumulated expected credit losses	₩ 3,164,752	₩ -	₩ -	₩ 3,164,752

Changes in gross book value on debt securities in financial assets measured at FVOCI for the year ended December 31, 2018 is as follows (Korean won in thousands):

	12 month expected credit loss	Lifetime expected credit losses	Impaired loans Lifetime expected credit losses	Total
Beginning accumulated expected credit losses	₩ 822,448,775	₩ -	₩ -	₩ 822,448,775
Transfer to 12 month expected credit loss	-	-	-	-
Transfer to lifetime expected credit losses	-	-	-	-
Transfer to lifetime Impaired loans lifetime expected credit losses	-	-	-	-
Execution and collection	(212,155,788)	-	-	(212,155,788)
Foreign transactions and other changes	-	-	-	-
Ending accumulated expected credit losses	₩ 610,292,987	₩ -	₩ -	₩ 610,292,987

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**10. Available-for-sale financial assets**

Available-for-sale financial assets as of December 31, 2017 is as follows (Korean won in thousands):

	Book value (Fair value)	
	December 31, 2017	
Equity securities and equity investment (*)	₩	246,051,374
Debt securities:		
Government and public bonds		-
Special purpose bonds		149,861,782
Corporate bonds		508,815,942
Collective investment securities		113,173,589
Foreign currency securities		221,307,960
Commercial papers		-
Others		12,455,174
	₩	1,251,665,821

(\*) Some non-marketable equity securities were measured at acquisition cost because they could not be evaluated at fair value with a reliable valuation model. If net asset value significantly decreases, the Group recognizes the difference between acquisition cost and net asset value as impairment loss.

Valuation gain (loss) on valuation of available-for-sale financial assets as of December 31, 2017 is as follows (Korean won in thousands):

	December 31, 2017				
	Acquisition cost	Amortized cost	Accumulated impairment loss	Fair value	Gain(loss) on valuation
Equity securities:					
Marketable equity securities	₩ 2,838,292	₩ 2,838,292	₩ (197,853)	₩ 2,687,840	₩ 47,401
Non-marketable equity securities	146,082,894	146,082,894	(5,094,597)	243,363,534	102,375,237
	₩ 148,921,186	₩ 148,921,186	₩ (5,292,450)	₩ 246,051,374	₩ 102,422,638
Debt securities:					
Special purpose bonds	149,938,831	149,831,825	-	149,861,782	29,957
Corporate bonds	506,611,812	509,173,782	-	508,815,942	(357,840)
	₩ 656,550,643	₩ 659,005,607	₩ -	₩ 658,677,724	₩ (327,883)
Collective investment securities	117,786,580	117,786,580	(11,912,891)	113,173,589	7,299,900
Commercial paper	221,227,863	221,227,863	-	221,307,960	80,097
Other securities	12,872,673	12,872,673	(417,499)	12,455,174	-
	₩ 1,157,358,945	₩ 1,159,813,909	₩ (17,622,840)	₩ 1,251,665,821	₩ 109,474,752

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**10. Available-for-sale financial assets (cont'd)**

Changes in valuation gain (loss) on valuation available-for-sale financial assets for the year ended December 31, 2017 is as follows (Korean won in thousands):

	Year ended December 31, 2017				
	Beginning balance	Reclassification	Increase due to business combination (*)	Gain (loss) on valuation	Ending balance
Equity securities:					
Marketable equity securities	₩ 268,609	₩ 305,647	₩ -	₩ (526,855)	₩ 47,401
Non-marketable equity securities	100,658,076	1,091,485	-	625,676	102,375,237
	₩ 100,926,685	₩ 1,397,132	₩ -	₩ 98,821	₩ 102,422,638
Debt securities					
Government and public bonds	883,763	(883,763)	-	-	-
Special purpose bonds	642,556	(407,745)	-	(204,854)	29,957
Corporate bonds	6,497,988	(77,019)	-	(6,778,809)	(357,840)
	₩ 8,024,307	₩ (1,368,527)	-	₩ (6,983,663)	₩ (327,883)
Collective investment securities	(5,334,018)	5,640,502	(121,072)	7,114,488	7,299,900
Commercial paper	208,739	(150,874)	-	22,232	80,097
Foreign currency securities	381,840	(381,840)	-	-	-
	₩ 104,207,553	₩ 5,115,218	₩ (121,072)	₩ 273,053	₩ 109,474,752
Income tax effect	(25,082,462)	(1,236,131)	26,636	(2,614,128)	(28,906,085)
	₩ 79,125,091	₩ 3,900,262	₩ (94,436)	₩ (2,362,250)	₩ 80,568,667

(\*) The increase is due to the inclusion of Meritz Capital Co., Ltd. into the Group's consolidation by the comprehensive share exchange in 2017.

Residual maturity profiles of debt securities in available-for-sale financial assets as of December 31, 2017 is as follows (Korean won in thousands):

	December 31, 2017			
	No later than 1 year	After 1 year but no later than 5 years	After 5 year but no later than 10 years	Total
Debt securities:				
Special purpose bonds	₩ 149,861,782	₩ -	₩ -	₩ 149,861,782
Corporate bonds	217,729,541	290,415,819	670,582	508,815,942
	367,591,323	290,415,819	670,582	658,677,724
Commercial paper	221,307,960	-	-	221,307,960
	₩ 588,899,283	₩ 290,415,819	₩ 670,582	₩ 879,985,684

**11. Investments in associates and joint ventures**

Details of investments in associates and joint ventures as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

Associates	Location	Ownership	Book value	
			December 31, 2018	December 31, 2017
Global one Private IPO Investment Trust #1 (*2)	Korea	0.00%	₩ -	₩ 6,500,000
MPLUS Private Real Estate Investment Trust #4 (*2)	Korea	0.00%	-	4,802,174
Korea Asset Classic Private Investment Trust 1 <sup>st</sup> (*1)	Korea	7.50%	288,946	340,562
Galaxy Private Investment Trust 1st (*1)	Korea	7.50%	300,918	304,924
Meritz Korea Private Investment Trust 1st (*1)	Korea	0.13%	89,635	112,046
Meritz Korea Private Investment Trust 2nd (*1)	Korea	0.11%	87,471	108,826
Meritz Korea Private Investment Trust 3rd (*1)	Korea	0.66%	79,051	113,927

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**11. Investments in associates and joint ventures (cont'd)**

Associates	Location	Ownership	Book value	
			December 31, 2018	December 31, 2017
Kiwoom Milestone Europe Professional Private Real Estate Investment Trust 4 (*2)	Korea	0.00%	₩ -	₩ 43,001,581
Bestars Samo Property No.8 Investment Inc.	Korea	37.50%	31,267,104	31,236,723
Platform Partners active mezzanine private equity investment trust No.2 (*2)	Korea	0.00%	-	1,535,260
Airplane fund 5 (*1)	Korea	20.35%	34,562,204	35,715,127
Airplane fund 6 (*1)	Korea	8.87%	9,390,125	9,733,012
Hana Special Situation Professional Private Real Estate Investment Trust 30th (*1)	Korea	9.09%	4,022,032	3,001,402
Meritz Professional Private Real Estate Investment Trust 8th (*1)	Korea	0.64%	296,450	300,249
Capstone Professional Private Real Estate Investment Trust 8th the first class	Korea	40.00%	200,000	183,370
Meritz Professional Private Real Estate Investment Trust 7th (*1)	Korea	0.63%	495,736	500,182
Kiwoom Japan Milestone Private Real Estate Investment Trust 1st (*1)	Korea	4.53%	4,886,910	-
Acuon Capital Corporation (*3)	Korea	15.39%	63,286,921	66,678,209
Asiageuroseuje1hosamo Investment Limited Partnership	Korea	45.45%	4,887,113	5,000,000
Global Bio Investment Union (*1)	Korea	12.07%	1,901,495	-
Kclavis Meister 38th (*1)	Korea	81.82%	892,627	-
Kclavis Meister 51th (*1)	Korea	16.18%	996,509	-
Gongpyeong 15-16 PFV	Korea	31.11%	283,049	-
Genesis North America Power Company 1st	Korea	24.40%	13,142,038	102,831
High Yield Plus Investment Trust 3rd (*2)	Korea	0.00%	-	102,823
High Yield Plus Investment Trust 4th (*2)	Korea	0.00%	-	101,253
East Spring High Yield 2nd (*1)	Korea	0.35%	101,750	-
Pacific Private Real Estate Investment Trust 6th	Korea	26.68%	7,706,089	260,285
Yuamkopain wood Enterprise Financial Anjeongsomo Investment Limited PA	Korea	33.33%	4,413,780	-
AIP Euro Green 7th (*1)	Korea	43.77%	74,582,002	-
AIP Euro Green 8th (*1)	Korea	58.81%	42,109,433	-
Ideun Private Investment Trust 2nd (*1)	Korea	72.38%	202,418,051	-
Simone Mezzanine Private Investment Trust 1st (*1)	Korea	16.10%	958,202	-
Quad Healthcare Multi-Strategy Private Investment Trust 4th (*1)	Korea	3.02%	998,676	-
M Plus Sky Private Investment Trust 4th (*1)	Korea	8.82%	3,394,143	-
Heungguk Flight Private Investment Trust 10th (*1)	Korea	21.52%	32,522,963	-
Heungguk Flight Private Investment Trust 11th (*1)	Korea	54.84%	9,523,717	-
Midas Global DEBT Private Real Estate Investment Trust 6th	Korea	30.07%	33,609,882	-
Mastern Private Real Estate Investment Trust 40th	Korea	49.91%	11,469,445	-
			<u>₩ 595,164,467</u>	<u>₩ 209,734,766</u>

(\*1) Classified as joint venture after the consent of all participants that make important decisions. The joint venture is financed by the participants and invests in stocks and real estate and distributes the revenue to the investors.

(\*2) All shares have been sold in 2018.

(\*3) The Group holds redeemable convertible preferred stock issued by Acuon Capital Co., Ltd., and as the director designated by the Group is a member of the Board of Directors of the investee.

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**11. Investments in associates and joint ventures (cont'd)**

Changes in investments in associates and joint venture for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

Year ended December 31, 2018								
Beginning balance	Acquisition	Disposal	Gain or loss on equity method	Receipt of dividends	Impairment	Capital changes in equity method	Other (*)	Ending balance
₩ 209,734,766	₩ 828,459,265	₩ (438,663,465)	₩ 16,110,648	₩ (20,476,746)	₩ -	₩ -	₩ -	₩ 595,164,467

  

Year ended December 31, 2017								
Beginning balance	Acquisition	Disposal	Gain or loss on equity method	Receipt of dividends	Impairment	Capital changes in equity method	Other (*)	Ending balance
₩ 231,751,609	₩ 53,600,000	₩ (124,158,371)	₩ 14,394,853	₩ (15,709,359)	₩ -	₩ (718,852)	₩ 50,574,886	₩ 209,734,766

(\*) The Group holds redeemable convertible preferred stock issued by Acuon Capital Co., Ltd., and as the director designated by the Group is a member of the Board of Directors of the investee, it was reclassified from AFS financial asset to investments in associates.

Condensed financial statements as of December 31, 2018 and 2017 and for the years then ended are as follows (Korean won in thousands):

	December 31, 2018			
Associates	Assets	Liabilities	Revenue	Net profit(loss)
Korea Asset Classic Private Investment Trust 1st	₩ 3,854,657	₩ 2,038	₩ 148,726	₩ (147,481)
Galaxy Private Investment Trust 1st	4,018,209	5,968	208,437	7,296
Meritz Korea Private Investment Trust 1st	69,575,499	1,294,343	5,503,078	(10,432,183)
Meritz Korea Private Investment Trust 2nd	80,492,877	1,531,426	5,266,421	(12,570,174)
Meritz Korea Private Investment Trust 3rd	11,982,954	3,574	1,529,082	(2,365,175)
Bestars Samo Property No.8 Investment Inc.	177,220,038	93,841,094	11,498,054	6,768,120
Airplane fund 5	169,876,019	31,218	21,295,797	8,952,670
Airplane fund 6	105,912,105	19,497	19,509,460	12,001,737
Hana Special Situation Professional Private Real Estate Investment Trust 30th	44,242,609	263	2,963,911	2,648,369
Meritz Professional Private Real Estate Investment Trust 8th	46,155,292	12,044	7,432,229	2,097,908
Capstone Professional Private Real Estate Investment Trust 8th the first class	4,078,349	3,578,349	2,128,227	541,576
Meritz Professional Private Real Estate Investment Trust 7th	79,241,687	23,012	14,008,198	3,646,830
Kiwoom Japan Milestone Private Real Estate Investment Trust 1st	109,418,867	1,613,641	3,577,205	(2,494,774)
Acuon Capital Corporation (*)	4,892,458,884	4,276,270,561	468,312,792	86,394,832
Asiageuroseuje1hosamo Investment Limited Partnership	10,759,899	7,175	-	(106,300)
Global Bio Investment Union	15,900,086	146,192	7,843	(219,530)
Kclavis Meister 38th	1,100,050	9,086	53	(9,036)
Kclavis Meister 51th	6,176,167	17,270	41	(21,103)
Gongpyeong 15-16 PFV	9,559,137	6,998,090	-	(3,332,542)
Genesis North America PowerCompany 1st	54,086,142	223,137	669	(229,315)
East Spring High Yield 2nd	28,860,162	21,691	1,392,018	977,090
Pacific Private Real Estate Investment Trust 6th	80,438,696	72,732,606	11,546,341	3,706,089
Yuamkopain wood Enterprise Financial Anjeongsomo Investment Limited PA	13,568,393	325,730	103,995	(726,403)
AIP Euro Green Real Estate Investment Trust 7th	112,619,384	115,215	1	(116,875)
AIP Euro Green Real Estate Investment Trust 8th	66,818,616	107,849	2,094,454	533,635
Ideun Private Investment Trust 2nd	297,418,275	36,701	370,139	(12,592,730)
Simone Mezzanine Private Investment Trust 1st	5,958,335	7,904	506	(259,568)
Quad Healthcare Multi-Strategy Private Investment Trust 4th	33,090,093	130	2,668	(1,816)
M Plus Sky Private Investment Trust 4th	38,467,204	₩ 251	261,328	104,753
Heungguk Flight Private Investment Trust 10th	151,159,915	19,734	1,436,346	304,681

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**11. Investments in associates and joint ventures (cont'd)**

Associates	December 31, 2018			
	Assets	Liabilities	Revenue	Net profit(loss)
Heungguk Flight Private Investment Trust 11th	17,368,730	1,951	167,049	8,097
Midas Global DEBT Private Real Estate Investment Trust 6th	112,465,332	70,242	2,074,839	(780,910)
Mastern Private Real Estate Investment Trust 40th	117,975,552	84,940,332	702,863	(1,464,780)
	6,972,318,214	4,544,008,314	583,542,770	80,822,988

(\*) This is the consolidated financial information as of September 30, 2018 and for the nine months then ended.

Associates	December 31, 2017			
	Assets	Liabilities	Revenue	Net profit(loss)
Globalone Private IPO Investment Trust #1	₩ 13,713,526	₩ 713,526	₩ 967,866	₩ 679,659
MPLUS Private Real Estate Investment Trust #4	4,543,211	2,382	671,188	516,133
Korea Asset Classic Private Investment Trust 1st (*1)	5,846,726	84,116	255,532	(171,492)
Mountain Pureun Private Investment Trust	4,067,929	2,275	113,672	67,782
Meritz Korea Private Investment Trust 1st	64,281,431	43,115	5,589,389	4,138,317
Meritz Korea Private Investment Trust 2nd	61,273,830	17,087	3,524,753	3,156,694
Meritz Korea Private Investment Trust 3rd	17,321,497	56,944	3,015,068	2,737,031
Kiwoom Milestone Europe Professional Private Real Estate Investment Trust3	126,261,153	50,611	2,292,486	(2,789,458)
Bestars Samo Property No.8 Investment Inc.	177,118,175	93,820,247	8,993,299	6,458,350
Platform Partners active mezzanine private equity investment trust No.2	18,811,006	1,102,097	5,781,308	5,169,059
Airplane fund 5	180,848,257	5,337,789	16,378,275	10,678,551
Airplane fund 6	113,216,334	3,456,992	15,711,792	12,107,886
Hana Special Situation Professional Private Real Estate Investment Trust 30th	33,484,526	469,105	953,433	919,878
Meritz Professional Private Real Estate Investment Trust 8th	46,753,450	14,649	1,608,086	38,801
Capstone Professional Private Real Estate Investment Trust 8th the first class	11,276,451	10,542,214	1,496	(41,576)
Meritz Professional Private Real Estate Investment Trust 7th	80,324,963	395,833	2,490,287	840,749
High Yield Plus Investment Trust 3 <sup>rd</sup>	3,189,236	1,485	171,225	102,651
High Yield Plus Investment Trust 4 <sup>th</sup>	8,330,732	2,083	421,409	244,573
East Spring High Yield 2nd	23,648,738	18,137	2,218,058	1,188,523
Acuon Capital Co., Ltd. (*)	4,656,500,461	4,102,449,103	315,977,320	60,894,248
Asiageuroseuje1hosamo Investment Limited Partnership	10,905,959	-	52	(94,041)
Yuamkopain wood Enterprise Financial Anjeongsomo Investment Limited PA	1,200,000	419,146	-	(419,146)
	₩ 5,662,917,591	₩ 4,218,998,936	₩ 387,135,994	₩ 106,423,172

(\*) This is the consolidated financial information as of September 30, 2017 and for the nine months then ended.

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**12. Loans**

Details of loans as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018		
	Face value	Allowance for possible loan losses	Book value
Loans:			
Call loans	₩ -	₩ -	₩ -
RP purchased	1,189,300,000	-	1,189,300,000
Broker's loan	1,172,859,213	-	1,172,859,213
Loans to employees	3,317,227	(68,673)	3,248,554
Loans	10,455,336,897	(162,706,705)	10,292,630,192
Notes discounted	-	-	-
Loans purchased	20,193,352	(78,341)	20,115,011
Privately-placed corporate bonds	3,300,000	(106,818)	3,193,182
Payment on behalf of another company	3,660,893	(3,660,893)	-
Deferred loan fees	(27,911,826)	-	(27,911,826)
	<u>₩ 12,820,055,756</u>	<u>₩ (166,621,430)</u>	<u>₩ 12,653,434,326</u>
	December 31, 2017		
	Face value	Allowance for possible loan losses	Book value
Loans:			
Call loans	₩ 141,126	₩ -	₩ 141,126
RP purchased	901,500,000	-	901,500,000
Broker's loan	896,111,629	-	896,111,629
Loans to employees	3,067,690	(68,673)	2,999,017
Loans	6,541,586,258	(119,128,023)	6,422,458,235
Notes discounted	21,000,000	(88,314)	20,911,686
Loans purchased	198,133,141	(1,462,814)	196,670,327
Privately-placed corporate bonds	87,428,754	(602,243)	86,826,511
Payment on behalf of another company	3,660,893	(3,660,893)	-
Deferred loan fees	(3,975,499)	-	(3,975,499)
	<u>₩ 8,648,653,992</u>	<u>₩ (125,010,960)</u>	<u>₩ 8,523,643,032</u>

**Broker's loans**

The Group provides loans to clients who either make margin transactions for purchasing securities or entrust their investment securities to the Group and records them as credit loans granted and loans secured by securities, respectively. Credit loans granted are secured with the securities purchased by clients and cash in clients' deposit account, which amount to 140~150% of the original loan. When the collateral value is insufficient to secure the loan and its accrued income, the Group requests for additional collateral cash or securities.

In addition, the Group asks for an opening guarantee deposit in connection with brokers' loans and the deposits are recorded as a liability item guarantee deposit received.



**Meritz Securities Co., Ltd. and its subsidiaries**  
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**12. Loans (cont'd)**

Residual maturity profiles of debt securities as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018	December 31, 2017
No later than 1 year	₩ 6,280,807,135	₩ 5,146,117,330
After 1 year but no later than 3 years	4,528,987,348	2,721,758,439
After 1 year but no later than 5 years	1,718,219,727	591,989,287
After 5 years	319,953,370	192,764,435
	<u>₩ 12,847,967,580</u>	<u>₩ 8,652,629,491</u>

Changes in allowance for possible loan losses for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018				December 31, 2017
	12 month expected credit loss	Lifetime expected credit losses	Impaired loans Lifetime expected credit losses	Total	
Beginning balance	₩ 84,262,806	₩ -	₩ 40,748,154	₩ 125,010,960	₩ 69,199,534
Effect of changes in accounting standards	(34,754,844)	15,645,425	19,681,592	572,173	-
Transfer to 12 month expected credit loss	1,377,558	(1,377,558)	-	-	-
Transfer to lifetime expected credit losses	(1,782,318)	1,984,613	(202,295)	-	-
Transfer to Impaired loans lifetime expected credit losses	(1,049,512)	(5,110,870)	6,160,382	-	-
Bad debts written off	-	-	(20,960,486)	(20,960,486)	(12,735,705)
Collection of loans written-off in prior periods	-	-	1,991,114	1,991,114	823,980
Utilized	-	-	(615,801)	(615,801)	(10,352,010)
Others(reclassification)	-	-	158,028	158,028	-
Debt for equity swaps	-	-	(649,743)	(649,743)	-
Transfer	(270,112)	-	-	(270,112)	-
Increase from a business combination(*)	-	-	-	-	46,537,275
Unwinding effect	-	-	(15,432,149)	(15,432,149)	(3,417,185)
	<u>₩ 47,783,578</u>	<u>₩ 11,141,610</u>	<u>₩ 30,878,796</u>	<u>₩ 89,803,984</u>	<u>₩ 90,055,889</u>
Provision for allowance	29,696,335	6,881,423	40,748,154	76,817,446	34,960,613
	<u>₩ 77,479,913</u>	<u>18,023,033</u>	<u>19,681,592</u>	<u>166,621,430</u>	<u>₩ 125,016,502</u>

(\*) The increase is due to the inclusion of Meritz Capital Co., Ltd. into the Group's consolidation by the comprehensive share exchange in 2017.

**Meritz Securities Co., Ltd. and its subsidiaries**  
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**12. Loans (cont'd)**

Changes in gross book value for the years ended December 31, 2018 is as follows (Korean won in thousands):

	12 month expected		Impaired loans		Total
	credit loss	Lifetime expected credit losses	Lifetime expected credit losses		
Beginning gross book value	₩ 8,075,670,544	₩ 388,222,583	₩ 126,907,609		₩ 8,590,800,736
Transfer to 12 month expected credit loss	41,046,031	(41,046,031)	-		-
Transfer to lifetime expected credit losses	(100,683,937)	100,850,611	(166,674)		-
Transfer to impaired loans/lifetime expected credit losses	(32,158,085)	(24,791,336)	56,949,421		-
Execution and collection	4,410,811,408	(95,415,934)	(58,228,628)		4,257,166,846
Foreign transactions and Other changes	-	-	-		-
	<u>₩ 12,394,685,961</u>	<u>₩ 327,819,893</u>	<u>₩ 125,461,728</u>		<u>₩ 12,847,967,582</u>

Changes in incidental income or incident expense of deferred loans for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018				
	Beginning balance	Increase due to business combination (*)	Income or expense incurred	Depreciation	Ending balance
Incidental income	₩ (44,755,954)	₩ -	₩ (91,724,144)	₩ 60,244,698	₩ (76,235,400)
Incidental expense	40,780,455	-	42,394,307	(34,851,188)	48,323,574
	<u>₩ (3,975,499)</u>	<u>₩ -</u>	<u>₩ (49,329,837)</u>	<u>₩ 25,393,510</u>	<u>₩ (27,911,826)</u>

  

	Year ended December 31, 2017				
	Beginning balance	Increase due to business combination (*)	Income or expense incurred	Depreciation	Ending balance
Incidental income	₩ (14,466,991)	₩ (10,684,899)	₩ (53,913,121)	₩ 34,309,057	₩ (44,755,954)
Incidental expense	339,375	33,210,430	29,228,362	(21,997,712)	40,780,455
	<u>₩ (14,127,616)</u>	<u>₩ 22,525,531</u>	<u>₩ (24,684,759)</u>	<u>₩ 12,311,345</u>	<u>₩ (3,975,499)</u>

(\*) The increase is due to the inclusion of Meritz Capital Co., Ltd. into the Group's consolidation by the comprehensive share exchange in 2017.

Gain (loss) related to loans for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Gain on disposal of loans	₩ 3,602,478	₩ 4,856,228
	3,602,478	4,856,228
Loss on disposal of loans	-	(871,335)
Provision for doubtful accounts	(76,817,446)	(34,960,613)
	<u>(76,817,446)</u>	<u>(35,831,948)</u>
	<u>₩ (73,214,968)</u>	<u>₩ (30,975,720)</u>

**Meritz Securities Co., Ltd. and its subsidiaries**  
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**13. CMA**

Details of CMA assets for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Financial assets measured at FVTPL		
CMA-notes discounted	₩ 4,995,324	₩ -
Financial assets measured at amortized cost		
CMA-notes discounted	-	4,994,458
	<u>₩ 4,995,324</u>	<u>₩ 4,994,458</u>

Changes in allowance for possible loan losses for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Beginning balance	₩ 5,542	₩ 90,452
Effect of changes in accounting standards	(5,542)	-
Provision for allowance	-	(84,910)
Ending balance	<u>₩ -</u>	<u>₩ 5,542</u>

**14. Lease**

Details of lease assets for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018			
	Acquisition cost	Allowance for lease	Accumulated depreciation	Book value
Financial lease	₩ 1,000,789,993	₩ (15,881,751)	₩ -	₩ 984,908,242
Operating lease	282,031,871	-	(56,618,099)	225,413,772
Advances for acquisition of assets to be leased	1,464,110	-	-	1,464,110
	<u>₩ 1,284,285,974</u>	<u>₩ (15,881,751)</u>	<u>₩ (56,618,099)</u>	<u>₩ 1,211,786,124</u>
	Year ended December 31, 2017			
	Acquisition cost	Allowance for lease	Accumulated depreciation	Book value
Financial lease	₩ 994,387,160	₩ (10,654,620)	₩ -	₩ 983,732,540
Operating lease	153,828,524	-	(31,889,904)	121,938,620
Advances for acquisition of assets to be leased	1,935,256	-	-	1,935,256
	<u>₩ 1,150,150,940</u>	<u>₩ (10,654,620)</u>	<u>₩ (31,889,904)</u>	<u>₩ 1,107,606,416</u>

**Meritz Securities Co., Ltd. and its subsidiaries**  
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**14. Lease (cont'd)**

Details of total lease investment and the present value of minimum financial lease as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018		December 31, 2017	
	Total lease investment	Minimum financial lease	Total lease investment	Minimum financial lease
No later than 1 year	₩ 355,791,779	₩ 339,817,757	₩ 142,599,022	₩ 138,734,739
After 1 year but no later than 5 years	646,345,411	625,850,275	851,412,066	815,029,448
After 5 years	3,811,600	3,783,330	11,461,335	10,915,409
	<u>₩ 1,005,948,790</u>	<u>₩ 969,451,362</u>	<u>₩ 1,005,472,423</u>	<u>₩ 964,679,596</u>

Unearned interests of financial lease as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018	December 31, 2017
Total lease investment	₩ 1,005,948,790	₩ 1,005,472,423
Minimum financial lease	1,000,789,993	994,387,160
Unearned interest	<u>₩ 5,158,797</u>	<u>₩ 11,085,263</u>

Unsecured residual value of financial lease as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018	December 31, 2017
	₩ 3,733,569	₩ 3,574,302

The estimated future operating lease revenues as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018	December 31, 2017
No later than 1 year	₩ 43,341,033	₩ 25,790,268
After 1 year but no later than 5 years	88,827,461	45,352,344
After 5 years	-	101,829
	<u>₩ 132,168,494</u>	<u>₩ 71,244,441</u>

Changes in allowance for lease for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018				December 31, 2017
	12 month expected credit loss	Lifetime expected credit losses	Impaired loans Lifetime expected credit losses	Total	
Beginning balance	₩ 8,105,592	₩ -	₩ 2,549,028	₩ 10,654,620	₩ 4,848,917
Effect of changes in accounting standards	(3,983,927)	2,197,659	3,355,755	1,569,487	-
Transfer to 12 month expected credit loss	238,793	(238,793)	-	-	-
Transfer to lifetime expected credit losses	(360,083)	360,083	-	-	-
Transfer to lifetime impaired loans Lifetime expected credit losses	(137,020)	(583,353)	720,373	-	-
Bad debts written off	-	-	(1,638,065)	(1,638,065)	(1,200,858)
Recovery of amortized bond	-	-	110,262	110,262	2,667
Increase due to business combination (*)	-	-	-	-	4,872,698

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**14. Lease (con't)**

	December 31, 2018				December 31, 2017
	12 month expected credit loss	Lifetime expected credit losses	Impaired loans Lifetime expected credit losses	Total	
Transfer	₩ (192,911)	₩ -	₩ -	₩ (192,911)	₩ -
Unwinding effect	-	-	(1,478,418)	(1,478,418)	(127,435)
Provision for allowance	3,670,443	1,735,596	3,618,935	9,024,974	8,395,989
(Reversal of allowance for lease)	22,995	3,818,875	3,014,907	6,856,777	2,258,631
	<u>3,693,438</u>	<u>5,554,471</u>	<u>6,633,842</u>	<u>15,881,751</u>	<u>10,654,620</u>

(\*) The increase is due to the inclusion of Meritz Capital Co., Ltd. into the Group's consolidation by the comprehensive share exchange in 2017.

Changes in gross book values in lease assets for the year ended December 31, 2018 is as follows (Korean won in thousands):

	12 month expected credit loss	Lifetime expected credit losses	Impaired loans Lifetime expected credit losses	Total
Beginning gross book value	₩ 826,871,532	₩ 159,749,039	₩ 7,766,590	₩ 994,387,161
Transfer to 12 month expected credit loss	19,787,781	(19,787,781)	-	-
Transfer to lifetime expected credit losses	(57,146,712)	57,146,712	-	-
Transfer to impaired loanslifetime expected credit losses	(6,608,057)	(8,012,239)	14,620,296	-
Execution and collection	21,041,241	(10,596,037)	(4,042,372)	6,402,832
Foreign transactions and other changes	-	-	-	-
	<u>₩ 803,945,785</u>	<u>₩ 178,499,694</u>	<u>₩ 18,344,514</u>	<u>₩ 1,000,789,993</u>

Gain (loss) related to lease for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Interest on financial lease	₩ 50,124,900	₩ 34,967,208
Commissions on operating lease	51,597,952	24,849,017
Gain on disposal of lease	3,263,135	3,475,283
Others	-	1,045,799
	<u>104,985,987</u>	<u>64,337,307</u>
Operating lease depreciation	(34,525,249)	(12,222,266)
Lease commission expense	(94,678)	(160,054)
Loss on disposal of lease	(3,049,673)	(1,249,325)
Provision for allowance	(6,856,776)	(2,258,631)
Others	(8,410,427)	(4,899,167)
	<u>₩ (52,936,803)</u>	<u>₩ (20,789,443)</u>
	<u>₩ 52,049,184</u>	<u>₩ 43,547,864</u>

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**15. Property and equipment**

Details of property and equipment as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018		
	Acquisition cost	Accumulated depreciation	Book value
	₩	₩	₩
Land	58,045,667	-	58,045,667
Buildings	37,350,344	(10,223,351)	27,126,993
Vehicles	1,095,601	(572,332)	523,269
Furniture and fixtures	52,233,283	(44,553,265)	7,680,018
Others	591,421	-	591,421
	<u>₩ 149,316,316</u>	<u>₩ (55,348,948)</u>	<u>₩ 93,967,368</u>

  

	December 31, 2017		
	Acquisition cost	Accumulated depreciation	Book value
	₩	₩	₩
Land	58,045,667	-	58,045,667
Buildings	36,847,163	(9,143,680)	27,703,483
Vehicles	2,400,589	(865,201)	1,535,388
Furniture and fixtures	49,434,439	(39,117,327)	10,317,112
Others	591,421	-	591,421
	<u>₩ 147,319,279</u>	<u>₩ (49,126,208)</u>	<u>₩ 98,193,071</u>

Changes in property and equipment for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018					
	Beginning balance	Addition (*1)	Dispose	Depreciation	Transfer (*2)	Ending balance
Land	₩ 58,045,667	₩ -	₩ -	₩ -	₩ -	₩ 58,045,667
Buildings	27,703,483	-	-	(933,758)	357,268	27,126,993
Vehicles	1,535,388	-	-	(430,824)	(581,295)	523,269
Furniture and fixture	10,317,112	2,949,847	(18,502)	(5,568,439)	-	7,680,018
Others	591,421	-	-	-	-	591,421
	<u>₩ 98,193,071</u>	<u>₩ 2,949,847</u>	<u>₩ (18,502)</u>	<u>₩ (6,933,021)</u>	<u>₩ (224,027)</u>	<u>₩ 93,967,368</u>

(\*1) ₩38,013 thousand of tangible assets based on the recognition of provision for restoration cost are included in the acquisition of furniture and fixtures.

(\*2) Transfer for buildings is the transferred amount from investment properties based on the change in rental ratios, and the transfer for vehicles is the transferred amount to lease transactions between the consolidated entities.

	Year ended December 31, 2017						
	Beginning balance	Addition (*1)	Increase due to business combination (*2)	Dispose	Depreciation	Transfer (*3)	Ending balance
Land	₩ 59,306,738	₩ -	₩ -	₩ (1,877,009)	₩ -	₩ 615,938	₩ 58,045,667
Buildings	29,808,029	-	-	(1,182,867)	(921,679)	-	27,703,483
Vehicles	80,320	-	65,379	-	(38,591)	1,428,280	1,535,388
Furniture and fixture	9,859,162	4,803,018	1,358,268	(7,801)	(5,695,535)	-	10,317,112
Others	591,421	-	-	-	-	-	591,421
	<u>₩ 99,645,670</u>	<u>₩ 4,803,018</u>	<u>₩ 1,423,647</u>	<u>₩ (3,067,677)</u>	<u>₩ (6,655,805)</u>	<u>₩ 2,044,218</u>	<u>₩ 98,193,071</u>

(\*1) ₩46,152 thousand of tangible assets based on the recognition of provision for restoration cost are included in the acquisition of furniture and fixtures.

(\*2) The increase is due to the inclusion of Meritz Capital Co., Ltd. into the Group's consolidation by the comprehensive share exchange in 2017.

(\*3) Transfer for land is the transferred amount from investment properties based on the change in rental ratios, and the transfer for vehicles is the transferred amount from lease transactions between the consolidated entities.

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**16. Investment property**

Details of investment property as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 7,250,323	₩ -	₩ 7,250,323
Buildings	8,671,865	(3,876,087)	4,795,778
	<u>₩ 15,922,188</u>	<u>₩ (3,876,087)</u>	<u>₩ 12,046,101</u>

  

	December 31, 2017		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 7,250,323	₩ -	₩ 7,250,323
Buildings	9,175,046	(3,805,203)	5,369,843
	<u>₩ 16,425,369</u>	<u>₩ (3,805,203)</u>	<u>₩ 12,620,166</u>

Changes in the net carrying amount of investment properties for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018				
	Beginning balance	Disposal	Depreciation	Transfer (*)	Ending Balance
Land	₩ 7,250,323	₩ -	₩ -	₩ -	₩ 7,250,323
Buildings:					
Acquisition cost	9,175,046	-	-	(503,181)	8,671,865
Accumulated depreciation	(3,805,203)	-	(216,797)	145,913	(3,876,087)
	<u>₩ 12,620,166</u>	<u>₩ -</u>	<u>₩ (216,797)</u>	<u>₩ (357,268)</u>	<u>₩ 12,046,101</u>

  

	Year ended December 31, 2017				
	Beginning balance	Disposal	Depreciation	Transfer (*)	Ending Balance
Land	₩ 12,489,782	₩ (4,623,521)	₩ -	₩ (615,938)	₩ 7,250,323
Buildings:					
Acquisition cost	14,976,426	(5,801,380)	-	-	9,175,046
Accumulated depreciation	(6,302,857)	2,727,030	(229,376)	-	(3,805,203)
	<u>₩ 21,163,351</u>	<u>₩ (7,697,871)</u>	<u>₩ (229,376)</u>	<u>₩ (615,938)</u>	<u>₩ 12,620,166</u>

(\*) Transferred from property and equipment, according to the change in rental rates.

The fair value of the land and buildings provided by an independent property appraisal firm is amounted to ₩8,546,221 thousand and ₩7,859,487 thousand as of December 31, 2018 and 2017, respectively.

The rental income and depreciation arising from the Group's investment properties for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Rental income	₩ 829,210	₩ 892,933
Depreciation	(216,797)	(229,376)

₩2,870 million of the right to fixed collateral is established for lease deposit on investment property as of December 31, 2018.



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**17. Intangible assets**

Intangible assets as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value
Software	₩ 50,256,083	₩ (42,318,616)	₩ -	₩ 7,937,467
Membership	15,881,051	-	(4,179,625)	11,701,426
Others	19,254,586	(3,096,994)	-	16,157,592
	<u>₩ 85,391,720</u>	<u>₩ (45,415,610)</u>	<u>₩ (4,179,625)</u>	<u>₩ 35,796,485</u>

	December 31, 2017			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value
Software	₩ 49,864,773	₩ (42,845,635)	₩ -	₩ 7,019,138
Membership	15,806,051	-	(4,179,625)	11,626,426
Others	19,114,576	(2,745,011)	-	16,369,565
	<u>₩ 84,785,400</u>	<u>₩ (45,590,646)</u>	<u>₩ (4,179,625)</u>	<u>₩ 35,015,129</u>

Changes in carrying amounts of intangible assets for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018				
	Beginning balance	Addition	Decrease	Depreciation	Ending balance
Software	₩ 7,019,138	₩ 3,713,024	₩ -	₩ (2,794,695)	₩ 7,937,467
Membership	11,626,426	75,000	-	-	11,701,426
Others	16,369,565	140,010	-	(351,983)	16,157,592
	<u>₩ 35,015,129</u>	<u>₩ 3,928,034</u>	<u>₩ -</u>	<u>₩ (3,146,678)</u>	<u>₩ 35,796,485</u>

	Year ended December 31, 2017					
	Beginning balance	Addition	Increase due to business combination (*)	Decrease	Depreciation	Ending balance
Software	₩ 7,985,871	₩ 3,460,814	₩ 717,912	₩ (105)	₩ (5,145,355)	₩ 7,019,138
Membership	11,671,648	-	1,952,751	(1,997,973)	-	11,626,426
Others	16,056,415	335,669	537,282	-	(559,801)	16,369,565
	<u>₩ 35,713,934</u>	<u>₩ 3,796,483</u>	<u>₩ 3,207,945</u>	<u>₩ (1,998,078)</u>	<u>₩ (5,705,156)</u>	<u>₩ 35,015,129</u>

(\*) The increase is due to the inclusion of Meritz Capital Co., Ltd. into the Group's consolidation by the comprehensive share exchange in 2017.

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**18. Other assets**

Other assets as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018		December 31, 2017	
Receivable from proprietary trading	₩	318,303,232	₩	195,053,115
Receivable from trading on consignment		170,918,004		247,752,477
Other receivable		61,307,798		52,927,243
Accrued income		162,081,054		77,954,575
Guarantee deposits		18,271,939		14,459,863
Unsettled spot exchange		89,495,600		32,166,600
Unsettled difference		6		742,918
Allowance for possible losses		(5,598,192)		(4,820,701)
Present value discount		(399,546)		(496,527)
	₩	814,379,895	₩	615,739,563
Advanced payment		143,049,116		160,829,724
Prepaid expenses		40,035,227		20,853,211
Others		3,168,042		3,344,038
	₩	186,252,385	₩	185,026,973
	₩	1,000,632,280	₩	800,766,536

Changes in allowance for other assets for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018				December 31, 2017
	12 month expected credit loss	Lifetime expected credit losses	Impaired loans Lifetime expected credit losses	Total	
Beginning balance	₩ 1,571,667	₩ -	₩ 3,249,034	₩ 4,820,701	₩ 3,553,525
Effect of changes in accounting standards	(1,073,017)	218,948	310,192	(543,877)	-
Transfer to 12 month expected credit loss	69,973	(69,973)	-	-	-
Transfer to lifetime expected credit losses	(21,396)	23,389	(1,993)	-	-
Transfer to lifetime Impaired loans Lifetime expected credit losses	(8,644)	(100,297)	108,941	-	-
Sale	-	-	-	-	-
Bad debts written off	-	-	-	-	(328,262)
Recovery of amortized bond	463,024	-	-	463,024	-
Increase due to business combination (*)	-	-	-	-	559,679
Provision for (reversal of) allowance	348,559	218,593	475,501	1,042,653	1,035,759
	₩ 1,350,166	₩ 290,660	₩ 3,957,366	₩ 5,598,192	₩ 4,820,701

(\*) The increase is due to the inclusion of Meritz Capital Co., Ltd. into the Group's consolidation by the comprehensive share exchange in 2017.

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**19. Deposits**

Deposits as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018	December 31, 2017
Customers' claims on deposits	₩ 562,144,634	₩ 620,331,111
Leasehold deposits provided	234,849,542	229,627,801
CMA deposits	2,811,472	5,309,167
Notes payable	1,634,410,028	2,385,585,809
Others	4,744,253	4,922,849
	₩ 2,438,959,929	₩ 3,245,776,737
Discounted present value	(14,683,505)	(13,843,381)
	₩ 2,424,276,424	₩ 3,231,933,356

**20. Financial liabilities measured at FVTPL**

Financial liabilities measured at FVTPL as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Book value (fair value)	
	December 31, 2018	December 31, 2017
Financial liabilities measured at FVTPL		
Stock	₩ 367,063,928	₩ 282,745,373
Bonds:		
Government bonds	1,161,755,339	1,342,858,199
Special purpose bonds	190,672,423	150,374,567
Others	67,725,531	14,836,701
	₩ 1,787,217,221	₩ 1,790,814,840
Derivatives liabilities held-for-trading:		
Interest	67,247,330	34,748,925
Currency	18,999,744	4,696,090
Stock	115,979,380	16,660,122
Stock index	6,124,054	2,146,083
Others	505,309,318	3,300,695
Credit risk adjustments	(646,996)	(102,909)
Deferred Day1 profit or loss adjustments	(98,387,649)	891,607
	₩ 614,625,181	₩ 62,340,613
Financial liabilities designated at FVTPL(*):		
Equity linked securities sold	2,989,274,374	64,421,442
Derivative linked securities sold	274,841,358	382,962,355
Others	68,609,782	392,069
Credit risk value adjustments	(16,602,626)	(648,997)
Deferred day 1 profit or loss adjustments	123,993,702	18,252
	₩ 3,440,116,590	₩ 447,145,121
	₩ 5,841,958,992	₩ 2,300,300,574

(\*) The Group designates equity linked securities sold and derivative linked securities sold as financial liability at fair value through profit or loss without separating embedded derivative from the host contract.

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**21. Borrowings**

Borrowings as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Lender	Interest rate (%)	December 31, 2018	December 31, 2017
Borrowings:				
Call money	KB Bank and others		₩ 110,000,000	₩ 90,000,000
	KTB Investment &			
Commercial paper	Securities and others		1,260,000,000	487,000,000
Commercial Paper (ABCP)			1,935,305,400	1,262,700,000
Repurchase agreements sold	Woori Bank and others		6,300,775,204	6,390,979,183
Repurchase agreements sold (Foreign currency)	SG Securities and others		536,264,630	36,811,089
Borrowing from KSFC	KSFC		894,441,965	600,000,000
Others (*1)	NH bank and others		240,136,512	77,009,859
			<u>₩ 11,276,923,711</u>	<u>₩ 8,944,500,131</u>
Debentures :				
	KTB Investment &			
Asset backed short-term bonds	Securities and others		1,902,330,000	1,121,400,000
Debentures (*2)			5,073,565,633	3,610,607,066
			<u>₩ 6,975,895,633</u>	<u>₩ 4,732,007,066</u>
			<u>₩ 18,252,819,344</u>	<u>₩ 13,676,507,197</u>

(\*1) ₩42,450 million and ₩57,010 million, the amounts that subsidiaries borrowed from Meritz Fire & Marine Insurance Co., Ltd. as of December 31, 2017 and 2016, respectively, are included.

(\*2) ₩99,980 million and ₩99,961 million, the amounts that subsidiaries borrowed from Meritz Fire & Marine Insurance Co., Ltd. as of December 31, 2017 and 2016, respectively, are included.

Debentures as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Interest rate (%)	Date of issue	Maturity	December 31, 2018	December 31, 2017
Unwarranted subordinated debentures	5.74%	2012-06-28	2019-06-28	₩ 70,000,000	₩ 70,000,000
Unwarranted subordinated debentures	4.26%	2013-03-29	2018-09-29	-	40,000,000
Unwarranted subordinated debentures	4.66%	2013-03-29	2020-03-29	50,000,000	50,000,000
Unwarranted subordinated debentures	4.02%	2014-11-25	2020-05-25	80,000,000	80,000,000
Debentures guaranteed by holding company	2.13%	2015-03-16	2018-03-16	-	40,000,000
Debentures guaranteed by holding company	2.07%	2015-03-19	2018-03-19	-	50,000,000
Debentures guaranteed by holding company	1.92%	2015-04-24	2018-04-24	-	10,000,000
Debentures guaranteed by holding company	2.12%	2015-04-24	2020-04-24	30,000,000	30,000,000
Debentures guaranteed by holding company	2.45%	2015-05-27	2020-05-27	40,000,000	40,000,000
Debentures guaranteed by holding company	2.47%	2015-06-24	2020-06-24	20,000,000	20,000,000
Debentures guaranteed by holding company	2.47%	2015-06-24	2020-06-24	20,000,000	20,000,000
Non guaranteed debentures	2.78%	2015-07-29	2018-07-29	-	80,000,000
Non guaranteed debentures	2.80%	2015-08-12	2018-08-12	-	40,000,000
Non guaranteed debentures	3.06%	2015-10-23	2018-10-23	-	20,000,000
Non guaranteed debentures	3.06%	2015-10-26	2018-10-26	-	60,000,000
Asset-backed debentures	2.24%	2015-11-13	2018-07-30	-	7,000,000
Asset-backed debentures	2.29%	2015-11-13	2018-10-30	-	8,000,000
Asset-backed debentures	2.33%	2015-11-13	2019-01-30	-	8,000,000
Asset-backed debentures	2.37%	2015-11-13	2019-04-30	-	10,000,000
Asset-backed debentures	2.40%	2015-11-13	2019-07-30	-	6,000,000
Asset-backed debentures	2.43%	2015-11-13	2019-10-30	-	6,000,000
Debentures guaranteed by holding company	2.23%	2016-01-14	2019-01-14	30,000,000	30,000,000
Debentures guaranteed by holding company	2.44%	2016-01-14	2021-01-14	20,000,000	20,000,000
Debentures guaranteed by holding company	2.13%	2016-01-14	2018-01-14	-	10,000,000
Non guaranteed debentures	2.89%	2016-02-02	2018-02-02	-	10,000,000
Debentures guaranteed by holding company	2.07%	2016-02-03	2019-02-01	10,000,000	10,000,000
Non guaranteed debentures	2.78%	2016-02-18	2018-02-14	-	10,000,000
Non guaranteed debentures	3.06%	2016-02-25	2019-02-25	10,000,000	10,000,000
Non guaranteed debentures	3.04%	2016-02-29	2019-02-28	10,000,000	10,000,000
Debentures guaranteed by holding company	1.91%	2016-03-30	2019-03-29	20,000,000	20,000,000
Asset-backed debentures	1.84%	2016-03-30	2018-04-30	-	5,000,000
Asset-backed debentures	1.84%	2016-03-30	2018-06-29	-	10,000,000
Asset-backed debentures	1.85%	2016-03-30	2018-09-28	-	10,000,000

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	Interest rate (%)	Date of issue	Maturity	December 31, 2018	December 31, 2017
Asset-backed debentures	1.84%	2016-03-30	2018-01-30	-	5,000,000
Asset-backed debentures	1.84%	2016-03-30	2018-02-28	-	5,000,000
Asset-backed debentures	1.84%	2016-03-30	2018-03-30	-	5,000,000
Non guaranteed debentures	3.01%	2016-04-05	2019-04-05	72,498,954	81,575,540
Debentures guaranteed by holding company	1.76%	2016-05-12	2018-05-11	-	30,000,000
Debentures guaranteed by holding company	1.84%	2016-05-25	2018-05-25	-	20,000,000
Debentures guaranteed by holding company	2.10%	2016-05-25	2021-05-25	20,000,000	20,000,000
Non guaranteed debentures	2.46%	2016-07-25	2018-01-25	-	10,000,000
Non guaranteed debentures	2.46%	2016-07-29	2018-01-29	-	60,000,000
Non guaranteed debentures	2.44%	2016-08-09	2018-02-09	-	30,000,000
Debentures guaranteed by holding company	1.49%	2016-08-11	2018-02-09	-	10,000,000
Non guaranteed debentures	2.91%	2016-08-26	2021-08-26	20,000,000	20,000,000
Non guaranteed debentures	2.47%	2016-08-26	2018-02-26	-	10,000,000
Non guaranteed debentures	2.53%	2016-09-02	2018-03-02	-	10,000,000
Asset-backed debentures	1.65%	2016-09-09	2018-05-09	-	10,000,000
Asset-backed debentures	1.66%	2016-09-09	2018-06-08	-	10,000,000
Asset-backed debentures	1.66%	2016-09-09	2018-08-09	-	10,000,000
Asset-backed debentures	1.67%	2016-09-09	2018-09-09	-	10,000,000
Asset-backed debentures	1.67%	2016-09-09	2018-10-08	-	10,000,000
Asset-backed debentures	1.67%	2016-09-09	2018-12-07	-	10,000,000
Asset-backed debentures	1.68%	2016-09-09	2019-02-08	10,000,000	10,000,000
Asset-backed debentures	1.69%	2016-09-09	2019-04-09	10,000,000	10,000,000
Asset-backed debentures	1.70%	2016-09-09	2019-06-07	10,000,000	10,000,000
Asset-backed debentures	1.59%	2016-09-09	2018-01-09	-	10,000,000
Asset-backed debentures	1.60%	2016-09-09	2018-02-09	-	10,000,000
Non guaranteed debentures	2.62%	2016-09-27	2018-03-27	-	20,000,000
Debentures guaranteed by holding company	1.74%	2016-10-26	2018-01-26	-	10,000,000
Debentures guaranteed by holding company	1.88%	2016-11-04	2018-01-10	-	20,000,000
Debentures guaranteed by holding company	1.87%	2016-11-11	2018-05-11	-	20,000,000
Debentures guaranteed by holding company	1.88%	2016-11-11	2018-06-11	-	10,000,000
Debentures guaranteed by holding company	1.93%	2016-11-11	2018-11-09	-	10,000,000
Non guaranteed debentures	2.95%	2016-11-11	2018-11-09	-	30,000,000
Debentures guaranteed by holding company	1.86%	2016-11-11	2018-02-09	-	30,000,000
Debentures guaranteed by holding company	2.00%	2016-12-23	2018-01-23	-	20,000,000
Debentures guaranteed by holding company	1.88%	2017-01-12	2018-04-12	-	10,000,000
Debentures guaranteed by holding company	1.89%	2017-01-12	2018-05-11	-	10,000,000
Debentures guaranteed by holding company	2.02%	2017-01-12	2019-01-11	10,000,000	10,000,000
Non guaranteed debentures	2.87%	2017-01-12	2018-02-12	-	10,000,000
Non guaranteed debentures	2.88%	2017-01-12	2018-03-12	-	10,000,000
Debentures guaranteed by holding company	1.87%	2017-01-12	2018-01-12	-	10,000,000
Debentures guaranteed by holding company	1.87%	2017-01-12	2018-02-12	-	20,000,000
Debentures guaranteed by holding company	1.86%	2017-01-17	2018-04-17	-	10,000,000
Debentures guaranteed by holding company	1.94%	2017-01-17	2018-10-17	-	10,000,000
Non guaranteed debentures	2.86%	2017-01-20	2018-04-20	-	10,000,000
Debentures guaranteed by holding company	2.00%	2017-01-20	2019-01-18	20,000,000	20,000,000
Debentures guaranteed by holding company	1.86%	2017-01-23	2018-04-23	-	50,000,000
Non guaranteed debentures	3.09%	2017-01-26	2019-01-25	30,000,000	30,000,000
Debentures guaranteed by holding company	1.85%	2017-02-03	2018-05-03	-	50,000,000
Non guaranteed debentures	2.84%	2017-02-03	2018-04-03	-	10,000,000
Debentures guaranteed by holding company	1.85%	2017-02-10	2018-08-10	-	30,000,000
Non guaranteed debentures	2.89%	2017-02-10	2018-08-10	-	10,000,000
Non guaranteed debentures	3.09%	2017-02-10	2019-02-08	50,000,000	50,000,000
Non guaranteed debentures	2.82%	2017-02-21	2018-08-21	-	50,000,000
Non guaranteed debentures	3.03%	2017-02-21	2019-02-21	20,000,000	20,000,000
Non guaranteed debentures	2.81%	2017-03-03	2018-09-01	-	10,000,000
Non guaranteed debentures	2.73%	2017-03-07	2018-04-06	-	20,000,000
Non guaranteed debentures	2.75%	2017-03-07	2018-05-04	-	10,000,000
Non guaranteed debentures	2.82%	2017-03-07	2018-09-07	-	10,000,000
Non guaranteed debentures	3.06%	2017-03-07	2019-03-07	30,000,000	30,000,000
Non guaranteed debentures	2.81%	2017-03-20	2018-06-20	-	20,000,000
Non guaranteed debentures	2.86%	2017-03-20	2018-09-20	-	10,000,000
Non guaranteed debentures	3.09%	2017-03-20	2019-03-20	30,000,000	30,000,000
Non guaranteed debentures	2.71%	2017-04-07	2018-04-06	-	20,000,000
Non guaranteed debentures	2.77%	2017-04-07	2018-08-07	-	10,000,000
Non guaranteed debentures	2.79%	2017-04-07	2018-09-07	-	10,000,000
Non guaranteed debentures	2.81%	2017-04-07	2018-10-05	-	40,000,000
Non guaranteed debentures	3.04%	2017-04-07	2019-04-05	60,000,000	60,000,000
Non guaranteed debentures	3.38%	2017-04-07	2020-04-06	30,000,000	30,000,000
Non guaranteed debentures	3.03%	2017-05-11	2019-05-10	60,000,000	60,000,000
Non guaranteed debentures	2.69%	2017-05-22	2018-11-22	-	50,000,000
Non guaranteed debentures	2.96%	2017-05-22	2019-05-22	50,000,000	50,000,000
Non guaranteed debentures	2.85%	2017-06-12	2019-06-12	50,000,000	50,000,000
Non guaranteed debentures	2.83%	2017-06-21	2019-06-21	50,000,000	50,000,000



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	Interest rate (%)	Date of issue	Maturity	December 31, 2018	December 31, 2017
Non guaranteed debentures	2.78%	2017-08-14	2019-08-14	80,000,000	80,000,000
Non guaranteed debentures	2.37%	2017-09-13	2019-03-13	10,000,000	10,000,000
Non guaranteed debentures	2.70%	2017-09-13	2019-09-11	80,000,000	80,000,000
Non guaranteed debentures	2.74%	2017-09-13	2019-10-11	20,000,000	20,000,000
Non guaranteed debentures	2.69%	2017-09-25	2019-09-25	140,000,000	140,000,000
Non guaranteed debentures	2.64%	2017-10-17	2019-07-17	20,000,000	20,000,000
Non guaranteed debentures	2.81%	2017-10-17	2019-10-17	100,000,000	100,000,000
Non guaranteed debentures	3.05%	2017-10-17	2020-04-17	20,000,000	20,000,000
Non guaranteed debentures	3.33%	2017-10-17	2020-10-16	20,000,000	20,000,000
Non guaranteed debentures	2.76%	2017-10-28	2019-04-30	20,000,000	20,000,000
Non guaranteed debentures	3.18%	2017-11-11	2019-11-13	50,000,000	50,000,000
Non guaranteed debentures	2.09%	2017-11-21	2019-05-21	10,000,000	10,000,000
Non guaranteed debentures	3.19%	2017-11-21	2019-11-21	50,000,000	50,000,000
Asset-backed debentures	1.96%	2017-11-28	2018-04-28	-	10,000,000
Asset-backed debentures	2.01%	2017-11-28	2018-05-28	-	10,000,000
Asset-backed debentures	2.06%	2017-11-28	2018-06-28	-	10,000,000
Asset-backed debentures	2.09%	2017-11-28	2018-07-28	-	10,000,000
Asset-backed debentures	2.14%	2017-11-28	2018-08-28	-	10,000,000
Asset-backed debentures	2.18%	2017-11-28	2018-09-28	-	10,000,000
Asset-backed debentures	2.23%	2017-11-28	2018-10-28	-	10,000,000
Asset-backed debentures	2.28%	2017-11-28	2018-11-28	-	10,000,000
Asset-backed debentures	2.31%	2017-11-28	2018-12-28	-	10,000,000
Asset-backed debentures	2.33%	2017-11-28	2019-01-28	10,000,000	10,000,000
Asset-backed debentures	2.35%	2017-11-28	2019-02-28	10,000,000	10,000,000
Asset-backed debentures	2.39%	2017-11-28	2019-03-28	10,000,000	10,000,000
Asset-backed debentures	2.41%	2017-11-28	2019-04-28	10,000,000	10,000,000
Asset-backed debentures	2.43%	2017-11-28	2019-05-28	10,000,000	10,000,000
Asset-backed debentures	2.46%	2017-11-28	2019-06-28	10,000,000	10,000,000
Asset-backed debentures	2.48%	2017-11-28	2019-07-28	10,000,000	10,000,000
Asset-backed debentures	2.51%	2017-11-28	2019-08-28	10,000,000	10,000,000
Asset-backed debentures	2.52%	2017-11-28	2019-09-28	10,000,000	10,000,000
Asset-backed debentures	2.54%	2017-11-28	2019-10-28	10,000,000	10,000,000
Asset-backed debentures	2.56%	2017-11-28	2019-11-28	10,000,000	10,000,000
Asset-backed debentures	2.57%	2017-11-28	2020-01-28	10,000,000	10,000,000
Asset-backed debentures	2.60%	2017-11-28	2020-04-28	10,000,000	10,000,000
Asset-backed debentures	2.60%	2017-11-28	2020-05-28	10,000,000	10,000,000
Asset-backed debentures	2.65%	2017-11-28	2020-07-28	10,000,000	10,000,000
Asset-backed debentures	2.70%	2017-11-28	2020-09-28	10,000,000	10,000,000
Asset-backed debentures	2.75%	2017-11-28	2020-12-28	10,000,000	10,000,000
Asset-backed debentures	2.76%	2017-11-28	2021-02-28	10,000,000	10,000,000
Asset-backed debentures	1.85%	2017-11-28	2018-01-28	-	10,000,000
Asset-backed debentures	1.86%	2017-11-28	2018-02-28	-	10,000,000
Asset-backed debentures	1.91%	2017-11-28	2018-03-28	-	10,000,000
Non guaranteed debentures	2.63%	2017-12-11	2019-07-11	50,000,000	50,000,000
Non guaranteed debentures	2.70%	2017-12-11	2019-08-09	40,000,000	40,000,000
Non guaranteed debentures	2.96%	2017-12-11	2019-12-11	120,000,000	120,000,000
Non guaranteed debentures	3.01%	2017-12-11	2020-01-10	10,000,000	10,000,000
Non guaranteed debentures	3.26%	2017-12-11	2020-06-11	30,000,000	30,000,000
Non guaranteed debentures	2.87%	2018-01-22	2020-01-22	90,000,000	-
Non guaranteed debentures	2.93%	2018-01-22	2020-02-21	30,000,000	-
Non guaranteed debentures	3.26%	2018-01-22	2020-07-22	40,000,000	-
Debentures guaranteed by holding company	2.52%	2018-02-08	2020-02-07	40,000,000	-
Debentures guaranteed by holding company	2.78%	2018-02-08	2021-02-08	60,000,000	-
Non guaranteed debentures	2.90%	2018-02-13	2020-02-13	20,000,000	-
Debentures guaranteed by holding company	2.57%	2018-02-23	2020-02-21	90,000,000	-
Debentures guaranteed by holding company	2.84%	2018-02-23	2021-02-23	40,000,000	-
Debentures guaranteed by holding company	2.60%	2018-03-14	2020-03-13	30,000,000	-
Non guaranteed debentures	2.92%	2018-03-14	2020-03-13	100,000,000	-
Non guaranteed debentures	3.29%	2018-03-14	2020-09-14	40,000,000	-
Debentures guaranteed by holding company	2.57%	2018-03-28	2020-03-27	50,000,000	-
Non guaranteed debentures	3.23%	2018-03-28	2020-09-28	40,000,000	-
Non guaranteed debentures	2.78%	2018-04-06	2020-04-06	90,000,000	-
Non guaranteed debentures	3.14%	2018-04-06	2020-10-06	60,000,000	-
Non guaranteed debentures	2.51%	2018-04-11	2020-04-10	30,000,000	-
Non guaranteed debentures	2.75%	2018-04-11	2021-04-09	10,000,000	-
Non guaranteed debentures	2.41%	2018-04-23	2020-01-23	50,000,000	-
Non guaranteed debentures	2.76%	2018-04-23	2021-04-23	10,000,000	-
Non guaranteed debentures	2.82%	2018-04-23	2020-05-22	10,000,000	-

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	Interest rate (%)	Date of issue	Maturity	December 31, 2018	December 31, 2017
Non guaranteed debentures	2.96%	2018-04-23	2020-07-23	40,000,000	-
Non guaranteed debentures	3.16%	2018-04-23	2020-10-23	10,000,000	-
Non guaranteed debentures	2.79%	2018-05-04	2020-05-04	40,000,000	-
Non guaranteed debentures	2.99%	2018-05-04	2020-08-04	30,000,000	-
Non guaranteed debentures	3.17%	2018-05-04	2020-11-04	30,000,000	-
Non guaranteed debentures	2.84%	2018-05-14	2021-05-14	10,000,000	-
Non guaranteed debentures	3.23%	2018-05-14	2023-05-12	70,000,000	-
Non guaranteed debentures	2.58%	2018-05-23	2020-08-21	30,000,000	-
Non guaranteed debentures	2.91%	2018-05-30	2020-08-28	30,000,000	-
Non guaranteed debentures	2.72%	2018-06-22	2020-06-22	30,000,000	-
Non guaranteed debentures	2.90%	2018-06-22	2020-09-22	80,000,000	-
Non guaranteed debentures	3.08%	2018-06-22	2020-12-22	30,000,000	-
Non guaranteed debentures	2.81%	2018-07-27	2020-10-27	50,000,000	-
Non guaranteed debentures	2.97%	2018-07-27	2021-01-27	60,000,000	-
Non guaranteed debentures	2.97%	2018-07-27	2021-01-26	20,000,000	-
Non guaranteed debentures	2.66%	2018-07-27	2021-07-27	50,000,000	-
Non guaranteed debentures	2.77%	2018-08-08	2020-11-06	60,000,000	-
Non guaranteed debentures	2.88%	2018-08-08	2021-01-08	90,000,000	-
Non guaranteed debentures	2.93%	2018-08-08	2021-02-08	50,000,000	-
Non guaranteed debentures	2.58%	2018-08-13	2021-08-13	30,000,000	-
Non guaranteed debentures	2.51%	2018-09-11	2020-11-11	30,000,000	-
Non guaranteed debentures	2.57%	2018-09-11	2020-12-11	50,000,000	-
Non guaranteed debentures	2.71%	2018-09-11	2021-03-10	20,000,000	-
Non guaranteed debentures	2.71%	2018-09-11	2021-03-11	80,000,000	-
Non guaranteed debentures	2.76%	2018-09-11	2021-04-09	60,000,000	-
Non guaranteed debentures	2.80%	2018-09-11	2021-05-11	50,000,000	-
Non guaranteed debentures	2.75%	2018-10-30	2021-03-30	30,000,000	-
Non guaranteed debentures	2.87%	2018-10-30	2021-08-30	40,000,000	-
Non guaranteed debentures	2.77%	2018-11-08	2021-04-08	40,000,000	-
Non guaranteed debentures	2.81%	2018-11-08	2021-05-07	50,000,000	-
Non guaranteed debentures	2.85%	2018-11-08	2021-06-08	60,000,000	-
Non guaranteed debentures	2.89%	2018-11-08	2021-07-08	40,000,000	-
Non guaranteed debentures	2.65%	2018-12-07	2021-08-06	100,000,000	-
Non guaranteed debentures	2.65%	2018-12-07	2021-08-05	20,000,000	-
Non guaranteed debentures	2.45%	2018-12-07	2021-12-07	20,000,000	-
Non guaranteed debentures	2.55%	2018-08-03	2021-08-03	210,000,000	-
Non guaranteed debentures	2.62%	2018-10-15	2021-10-15	320,000,000	-
Discount on debenture issued				(8,933,321)	(5,968,474)
				<u>₩ 5,073,565,633</u>	<u>₩ 3,610,607,066</u>



**Meritz Securities Co., Ltd. and its subsidiaries**  
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**December 31, 2018 and 2017**

**22. Provisions**

Provisions as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018	December 31, 2017
Provision for financial guarantee contract	₩ 870,006	₩ -
Allowances for unused commitments	12,971,614	-
Reserve for restoration costs	1,802,371	1,744,553
Provision for possible losses from lawsuits	294,760	325,471
	<u>₩ 15,938,751</u>	<u>₩ 2,070,024</u>

Changes in provision for financial guarantee contract for the year ended December 31, 2018 are as follows (Korean won in thousands):

	12 month expected credit loss	Lifetime expected credit losses	Impaired loanslifetime expected credit losses	Total
Beginning provision for financial guarantee contract	₩ -	₩ -	₩ -	₩ -
Effect of changes in accounting standards	778,231	-	-	778,231
Transfer to 12 month expected credit loss	-	-	-	-
Transfer to lifetime expected credit losses	-	-	-	-
Transfer to Impaired loanslifetime expected credit losses	-	-	-	-
Provisions for debt guarantee transferred in (reversal)	91,775	-	-	91,775
	<u>₩ 870,006</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 870,006</u>

Changes in allowances for unused commitments for the year ended December 31, 2018 are as follows (Korean won in thousands):

	12 month expected credit loss	Lifetime expected credit losses	Impaired loanslifetime expected credit losses	Total
Beginning allowances for unused commitments	₩ -	₩ -	₩ -	₩ -
Effect of changes in accounting standards	4,820,682	501,622	-	5,322,304
Transfer to 12 month expected credit loss	317,880	(317,880)	-	-
Transfer to lifetime expected credit losses	-	-	-	-
Transfer to Impaired loanslifetime expected credit losses	-	-	-	-
Provisions for debt guarantee transferred in (reversal)	7,792,757	(143,447)	-	7,649,310
	<u>₩ 12,931,319</u>	<u>₩ 40,295</u>	<u>₩ -</u>	<u>₩ 12,971,614</u>

**Meritz Securities Co., Ltd. and its subsidiaries**  
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**December 31, 2018 and 2017**

**22. Provisions (cont'd)**

Changes in provision for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018				
	Beginning balance	Addition (*1)	Provision (Reversal)	Use	Ending balance
Reserve for restoration costs	₩ 1,744,553	₩ 38,013	₩ 19,805	₩ -	₩ 1,802,371
Provision for possible losses from lawsuits	325,471	-	(26,158)	(4,553)	294,760
	<u>₩ 2,070,024</u>	<u>₩ 38,013</u>	<u>₩ (6,353)</u>	<u>₩ (4,553)</u>	<u>₩ 2,097,131</u>

(\*1) This is the amount for tangible assets based on the recognition of provision for restoration cost in 2018.

	Year ended December 31, 2017					
	Beginning balance	Addition (*1)	Provision (Reversal)	Use	Increase due to business combination (*2)	Ending balance
Reserve for restoration costs	₩ 1,364,582	₩ 46,152	₩ 23,895	₩ (72,454)	₩ 382,378	₩ 1,744,553
Provision for possible losses from lawsuits	8,821,677	-	(8,197,338)	(298,868)	-	325,471
	<u>₩ 10,186,259</u>	<u>₩ 46,152</u>	<u>₩ (8,173,443)</u>	<u>₩ (371,322)</u>	<u>₩ 382,378</u>	<u>₩ 2,070,024</u>

(\*1) This is the amount for tangible assets based on the recognition of provision for restoration cost in 2017.

(\*2) The increase is due to the inclusion of Meritz Capital Co., Ltd. into the Group's consolidation by the comprehensive share exchange in 2017.

**23. Defined benefit liabilities**

Defined benefit liabilities as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018	December 31, 2017
Present value of defined benefit liabilities	₩ 16,901,691	₩ 14,567,457
Fair value of plan assets	(18,044,852)	(14,567,457)
Defined benefit obligation	<u>₩ (1,143,161)</u>	<u>₩ -</u>

Changes in defined benefit liabilities for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Beginning balance	₩ 14,567,457	₩ 13,103,654
Current service cost	4,211,992	4,426,987
Interest expense	376,955	267,368
Re-measurement:		
Experience adjustments	1,058,850	(136,821)
Actuarial changes arising from changes in demographic assumptions	(51,939)	683
Actuarial changes arising from changes in financial assumptions	(383,902)	(443,421)
Payment	(2,877,722)	(2,650,993)
Ending balance	<u>₩ 16,901,691</u>	<u>₩ 14,567,457</u>

**Meritz Securities Co., Ltd. and its subsidiaries**  
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**December 31, 2018 and 2017**

**23. Defined benefit liabilities (cont'd)**

Changes in plan assets for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Beginning balance	₩ 14,567,457	₩ 10,475,505
Expected return on plan assets	385,985	208,386
Re-measurement:		
Interest income from plan assets (Excluding the amount included in the interest income above)	(143,000)	(63,313)
Contributions by employer	4,643,548	6,346,185
Payment	(1,729,053)	(2,079,391)
Other	319,915	(319,915)
Ending balance	<u>₩ 18,044,852</u>	<u>₩ 14,567,457</u>

Changes in the remeasurment of defined benefit liabilities for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Beginning balance	₩ (271,899)	₩ (663,265)
Re-measurement on defined benefit liabilities	(623,009)	579,559
Re-measurement on plan assets	(143,000)	(63,313)
Income tax effect	194,796	(124,880)
Ending balance	<u>₩ (843,112)</u>	<u>₩ (271,899)</u>

The details of defined benefit liabilities for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Current service cost	₩ 4,211,992	₩ 4,426,987
Interest expense, net	(9,030)	58,982
Defined benefit of severance payment	<u>₩ 4,202,962</u>	<u>₩ 4,485,969</u>

The principal actuarial assumptions as of December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Discount rate	3.06%	2.82%
Expected return ratio on plan assets	3.06%	2.82%
Future ratio of salary increase	2.00%	2.00%
Mortality rate	0.002% ~ 0.114%	0.002% ~ 0.114%

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2018 and 2017**

**23. Defined benefit liabilities (cont'd)**

Sensitivity analysis for actuarial assumptions in defined benefit liabilities as of December 31, 2018 is as follows (Korean won in thousands):

		December 31, 2018	1% Increase	1% Decrease
Fluctuation of future salary	₩	16,901,691	17,714,731	16,149,791
Fluctuation of discount rate	₩	16,901,691	16,165,586	17,712,258

The details of plan assets as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

		December 31, 2018		December 31, 2017
Deposits, etc.	₩	6,100,722	₩	4,204,351
Equity		12,475		9,525
Bonds		1,973,659		2,824,998
Collective investment securities		1,563,760		1,664,862
Financial assets in foreign currency		170,770		11,390
Others		8,223,466		5,852,331
	₩	18,044,852	₩	14,567,457

**24. Other liabilities**

Details of other liabilities as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

		December 31, 2018		December 31, 2017
Other financial liabilities:				
Account payable for proprietary trading	₩	80,784,633	₩	33,403,992
Account payable for trading on consignment		169,628,626		246,502,655
Accounts payables		68,430,645		52,136,893
Accrued expense payables		434,192,311		327,138,475
Accrued dividend		771,583		782,698
Leasehold deposits received		3,685,400		3,685,400
Unsettled spot exchange		89,503,500		32,175,200
Unsettled difference		4,510,089		2,838,866
Redeemable equity for non-controlling shareholders		4,396,156		3,589,664
	₩	855,902,943	₩	702,253,843
Other non-financial liabilities:				
Advance receipts		48,646,868		18,764,536
Unearned income		139,980,071		117,953,871
Withholding tax		17,293,230		10,296,087
Others		16,046,028		22,774,885
	₩	221,966,197	₩	169,789,379
	₩	1,077,869,140	₩	872,043,222

## 25. Derivative instruments

The Group uses derivative financial instruments such as interest rate swaps to exchange interest rates, currency swaps to hedge against exchange rate fluctuations, stock index options or stock index futures to generate profits.

The notional amount of derivative assets and liabilities outstanding as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018		
	Notional amount	Asset	Liability
Exchange-traded derivatives:			
Interest rates:			
Interest futures	₩ 4,147,898,395	₩ 573,645	₩ 13,217,702
Interest option purchased	-	-	-
Interest option sold	-	-	-
Currency:			
Currency futures	82,331,796	118,124	2,990
Currency option purchased	-	-	-
Currency option sold	-	-	-
Stock :			
Stock futures	2,210,249,038	1,912,837	168,239,647
Stock option purchased	1,675,206,501	271,214,986	-
Stock option sold	3,674,703,082	-	119,812,118
Commodity:			
Commodity futures	1,519,230	41,090	1,856
Commodity option purchased	-	-	-
Commodity option sold	-	-	-
	<u>₩ 11,791,908,042</u>	<u>₩ 273,860,682</u>	<u>₩ 301,274,313</u>
Over-the-counter derivatives:			
Interest rates:			
Interest rate forward	829,201,027	6,749,826	1,050,036
Interest rate swap	179,556,229,430	70,893,759	51,411,344
Interest rate option sold	10,000,000	-	1,451,405
Currency:			
Currency forward	2,239,322,001	10,193,594	14,685,588
Currency swap	765,151,051	2,539,781	4,229,076
Stock:			
Stock swap	2,173,935	34,495	262,357
Options purchased	50,761,427	9,265,222	-
Options sold	77,240,989	-	2,026,573
Credit:			
CDS	25,000,000	238,472	-
Others:			
Other swap	3,318,803,803	28,499,243	238,234,490
Options purchased	12,813,400	293,843	-
Options sold	-	-	-
	<u>₩ 186,886,697,063</u>	<u>₩ 128,708,235</u>	<u>₩ 313,350,869</u>
	<u>₩ 198,678,605,105</u>	<u>₩ 402,568,917</u>	<u>₩ 614,625,182</u>

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**25. Derivative instruments (cont'd)**

	December 31, 2017		
	Notional amount	Asset	Liability
Exchange-traded derivatives:			
Interest rates:			
Interest futures	₩ 1,370,075,351	₩ 318,060	₩ 22,679
Interest option purchased	-	-	-
Interest option sold	-	-	-
Currency:			
Currency futures	37,285,997	5,281	15,116
Currency option purchased	-	-	-
Currency option sold	-	-	-
Stock :			
Stock futures	801,444,924	7,161	11,220
Stock option purchased	635,748,270	25,398,085	-
Stock option sold	839,407,546	-	2,346,526
Commodity:			
Commodity futures	6,315,886	175,892	131,207
Commodity option purchased	4,669,590	11,182	-
Commodity option sold	275,089,300	-	84,005
	<u>₩ 3,970,036,864</u>	<u>₩ 25,915,661</u>	<u>₩ 2,610,753</u>
Over-the-counter derivatives:			
Interest rates:			
Interest rate swap	132,920,578,980	44,819,280	33,403,356
Interest rate option sold	10,000,000	-	1,243,600
Currency:			
Currency forward	401,143,079	7,790,298	2,812,194
Currency swap	126,629,309	353,433	1,849,216
Stock:			
Stock swap	194,255	-	28,978
Options purchased	40,077,205	10,935,976	-
Options sold	102,738,014	-	16,419,933
Credit:			
CDS	25,000,000	951,481	-
Others:			
Other swap	337,216,217	308,139	3,972,582
Options purchased	12,813,400	808,091	-
Options sold	-	-	-
	<u>₩ 133,976,390,459</u>	<u>₩ 65,966,698</u>	<u>₩ 59,729,859</u>
	<u>₩ 137,946,427,323</u>	<u>₩ 91,882,359</u>	<u>₩ 62,340,612</u>

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**25. Derivative instruments (cont'd)**

Gain (loss) on valuation of trading derivative financial instruments for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Exchange-traded derivatives:		
Interest rates	₩ (12,619,901)	₩ 962,363
Currency	(162,429)	507,124
Stock	(12,728,531)	(989,957)
Stock index	(25,119,573)	(13,010,110)
Others	39,234	1,377,251
	<u>₩ (50,591,200)</u>	<u>₩ (11,153,329)</u>
Over-the-counter derivatives:		
Interest rates	15,432,535	4,839,536
Currency	2,524,622	3,330,231
Stock	18,438,656	(12,449,996)
Credit	(340,820)	(310,935)
Others	(174,891,001)	(2,564,760)
	<u>₩ (138,836,008)</u>	<u>₩ (7,155,924)</u>
	<u>₩ (189,427,208)</u>	<u>₩ (18,309,253)</u>

**26. Capital stock**

The Company is authorized to issue 1,000,000,000 shares of common stock and has 605,641,072 and 111,847,818 shares of common and preferred stock issued and outstanding in the amount of ₩605,641,072 and ₩111,847,534 thousand as of December 31, 2017.

On July 30, 2018, the Company redeemed 13,804,345 redeemable convertible preference shares (the first issue) on which the redemption right can be exercised by profit retirement. Therefore, the face values of the preferred stock capital and the number of issued shares do not match.

Changes in capital stock for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

Year ended December 31, 2018	Issued shares	Capital stock
January 1, 2018	717,488,890	₩ 717,488,890
Issuance of comprehensive stock exchange	-	-
Issued convertible preferred stock	-	-
December 31, 2018	<u>717,488,890</u>	<u>₩ 717,488,890</u>
Year ended December 31, 2017	Issued shares	Capital stock
January 1, 2017	496,638,534	₩ 496,638,534
Issuance of comprehensive stock exchange	109,002,538	109,002,538
Issued convertible preferred stock	111,847,818	111,847,818
December 31, 2017	<u>717,488,890</u>	<u>₩ 717,488,890</u>



**26. Capital stock (cont'd)**

The Company has issued redeemable convertible preference shares in 2017, and has secured repayment rights for them. Besides, as no contractual obligation to deliver financial assets such as cash exits, they have been classified as equity. The details of redeemable convertible preference shares issued in 2017 are as follows:

(1) 1st issue

Classification	Details
Purpose of issue	Cumulative non-participating preferred stock
Total issued stock	13,804,345
Issue price per a share	₩9,200
Voting rights	No voting rights
Dividend rate	In the event of a dividend resolution in each fiscal year, dividends shall be paid within the scope of divisible profits. The initial dividend rate at the time of initial issuance of the shares will be determined as 2.683% higher than the average interest rate of 1 year maturity AA- grade unsecured public offering bonds issued by financial institution II from the 'return on bond market valuation (Matrix)' which is announced by the Korea Financial Investment Association. Dividends on the stock are to be paid in cash. The payment of the dividend may be postponed at the discretion of the issuing company to the extent permitted under the applicable statutory decree.
The right of redemption	The issuing company has the right to redeem all or part of the shares from the date of the first anniversary of the shares.
The right of conversion	<p>① The right of conversion : Owned by preferred stock holder</p> <p>② The conversion date : from June 30, 2022 to June 30, 2024 (subject to change in accordance with the manner or procedure permitted by statute)</p> <p>③ Ratio for conversion : A common stock for a preferred stock (However, conversion value is adjusted when there is a reason for adjustments)</p>

The first cumulative non-participating preference stocks of 13,804,345 shares were redeemed by profit retirement upon expiration of the redemption right exercise period as of July 30, 2018.

(2) 2nd issue

Classification	Details
Purpose of issue	Cumulative non-participating preferred stock
Total issued stock	15,434,781
Issue price per a share	₩4,600
Voting rights	No voting rights
Dividend rate	In the event of a dividend resolution in each fiscal year, dividends shall be paid within the scope of divisible profits. The initial dividend rate at the time of initial issuance of the shares will be determined as 2.609% higher than the average interest rate of 2 year maturity AA- grade unsecured public offering bonds issued by financial institution II from the 'return on bond market valuation (Matrix)' which is announced by the Korea Financial Investment Association. Dividends on the stock are to be paid in cash. The payment of the dividend may be postponed at the discretion of the issuing company to the extent permitted under the applicable statutory decree.
The right of redemption	The issuing company has the right to redeem all or part of the shares from the date of the second anniversary of the shares.
The right of conversion	<p>① The right of conversion : Owned by preferred stock holder</p> <p>② The conversion date : from December 30, 2019 to June 30, 2047 (subject to change in accordance with the manner or procedure permitted by statute)</p> <p>③ Ratio for conversion : A common stock for a preferred stock (However, conversion value is adjusted when there is a reason for adjustments)</p>

**26. Capital stock (cont'd)**

(3) 3rd issue

Classification	Details
Purpose of issue	Cumulative non-participating preferred stock
Total issued stock	23,913,042
Issue price per a share	₩4,600
Voting rights	No voting rights
Dividend rate	In the event of a dividend resolution in each fiscal year, dividends shall be paid within the scope of divisible profits. The initial dividend rate is 3.9%. Dividends on the stock are to be paid in cash. The payment of the dividend may be postponed at the discretion of the issuing company to the extent permitted under the applicable statutory decree.
The right of redemption	The issuing company has the right to redeem all or part of the shares from the date of the 3rd anniversary of the shares.
The right of conversion	<p>① The right of conversion : Owned by preferred stock holder</p> <p>② The conversion date : from June 30, 2018 to June 30, 2047 (subject to change in accordance with the manner or procedure permitted by statute)</p> <p>③ Ratio for conversion : A common stock for a preferred stock (However, conversion value is adjusted when there is a reason for adjustments)</p>

(4) 4th issue

Classification	Details
Purpose of issue	Cumulative non-participating preferred stock
Total issued stock	21,739,130
Issue price per a share	₩4,600
Voting rights	With voting rights
Dividend rate	In the event of a dividend resolution in each fiscal year, dividends shall be paid within the scope of divisible profits. The initial dividend rate is 3.9%. Dividends on the stock are to be paid in cash. The payment of the dividend may be postponed at the discretion of the issuing company to the extent permitted under the applicable statutory decree.
The right of redemption	The issuing company has the right to redeem all or part of the shares from the date of the 3rd anniversary of the shares.
The right of conversion	<p>① The right of conversion : Owned by preferred stock holder</p> <p>② The conversion date : from June 30, 2018 to June 30, 2047 (subject to change in accordance with the manner or procedure permitted by statute)</p> <p>③ Ratio for conversion : A common stock for a preferred stock (However, conversion value is adjusted when there is a reason for adjustments)</p>

**26. Capital stock (cont'd)**

(5) 5th issue

Classification	Details
Purpose of issue	Cumulative non-participating preferred stock
Total issued stock	8,695,652
Issue price per a share	₩9,200
Voting rights	No voting rights
Dividend rate	In the event of a dividend resolution in each fiscal year, dividends shall be paid within the scope of divisible profits. The initial dividend rate at the time of initial issuance of the shares will be determined as 1.542 times multiplied by the average interest rate of 2 year maturity A0 grade unsecured public offering bonds issued by financial institution II from the 'return on bond market valuation (Matrix)' which is announced by the Korea Financial Investment Association. Dividends on the stock are to be paid in cash. The payment of the dividend may be postponed at the discretion of the issuing company to the extent permitted under the applicable statutory decree.
The right of redemption	The issuing company has the right to redeem all or part of the shares from the date of the second anniversary of the shares.
The right of conversion	<p>① The right of conversion : Owned by preferred stock holder</p> <p>② The conversion date : from June 30, 2022 to June 30, 2024 (subject to change in accordance with the manner or procedure permitted by statute)</p> <p>③ Ratio for conversion : A common stock for a preferred stock (However, conversion value is adjusted when there is a reason for adjustments)</p>

The Company's shareholder, Meritz Financial Holding Co., has signed a contract with shareholders of Cube EM 1st Co., Ltd. The contract includes settlements of redeemable convertible preferred stocks, exercises of investors' put options, and contracts for the preferred right of the largest shareholders.

(6) 6th issue

Classification	Details
Purpose of issue	Cumulative non-participating preferred stock
Total issued stock	5,434,782
Issue price per a share	₩9,200
Voting rights	No voting rights
Dividend rate	In the event of a dividend resolution in each fiscal year, dividends shall be paid within the scope of divisible profits. The initial dividend rate at the time of initial issuance of the shares will be determined as 1.456 times multiplied by the average interest rate of 3 year maturity A0 grade unsecured public offering bonds issued by financial institution II from the 'return on bond market valuation (Matrix)' which is announced by the Korea Financial Investment Association. Dividends on the stock are to be paid in cash. The payment of the dividend may be postponed at the discretion of the issuing company to the extent permitted under the applicable statutory decree.
The right of redemption	The issuing company has the right to redeem all or part of the shares from the date of the 3rd anniversary of the shares.
The right of conversion	<p>① The right of conversion : Owned by preferred stock holder</p> <p>② The conversion date : from June 30, 2022 to June 30, 2024 (subject to change in accordance with the manner or procedure permitted by statute)</p> <p>③ Ratio for conversion : A common stock for a preferred stock (However, conversion value is adjusted when there is a reason for adjustments)</p>

**26. Capital stock (cont'd)**

The Company's shareholder, Meritz Financial Holding Co., has signed a contract with shareholders of Cube EM 5th Co., Ltd. The contract includes settlements of redeemable convertible preferred stocks, exercises of investors' put options, and contracts for the preferred right of the largest shareholders.

7) 7th issue

Classification	Details
Purpose of issue	Cumulative non-participating preferred stock
Total issued stock	7,608,695
Issue price per a share	₩9,200
Voting rights	No voting rights
Dividend rate	In the event of a dividend resolution in each fiscal year, dividends shall be paid within the scope of divisible profits. The initial dividend rate at the time of initial issuance of the shares will be determined as 1.405 times multiplied by the average interest rate of 4 year maturity A0 grade unsecured public offering bonds issued by financial institution II from the 'return on bond market valuation (Matrix)' which is announced by the Korea Financial Investment Association. Dividends on the stock are to be paid in cash. The payment of the dividend may be postponed at the discretion of the issuing company to the extent permitted under the applicable statutory decree.
The right of redemption	The issuing company has the right to redeem all or part of the shares from the date of the 3rd anniversary of the shares.
The right of conversion	<p>① The right of conversion : Owned by preferred stock holder</p> <p>② The conversion date : from June 30, 2022 to June 30, 2024 (subject to change in accordance with the manner or procedure permitted by statute)</p> <p>③ Ratio for conversion : A common stock for a preferred stock (However, conversion value is adjusted when there is a reason for adjustments)</p>

The Company's shareholder, Meritz Financial Holding Co., has signed a contract with shareholders of Cube EM 3rd Co., Ltd. and Cube EM 5th Co., Ltd. The contract includes settlements of redeemable convertible preferred stocks, exercises of investors' put options, and contracts for the preferred right of the largest shareholders.

8) 8th issue

Classification	Details
Purpose of issue	Cumulative non-participating preferred stock
Total issued stock	15,217,391
Issue price per a share	₩9,200
Voting rights	No voting rights
Dividend rate	In the event of a dividend resolution in each fiscal year, dividends shall be paid within the scope of divisible profits. The initial dividend rate at the time of initial issuance of the shares will be determined as 1.320 times the average interest rate of 5 year maturity A0 grade unsecured public offering bonds issued by financial institution II from the 'return on bond market valuation (Matrix)' which is announced by the Korea Financial Investment Association. Dividends on the stock are to be paid in cash. The payment of the dividend may be postponed at the discretion of the issuing company to the extent permitted under the applicable statutory decree.
The right of redemption	The issuing company has the right to redeem all or part of the shares from the date of the 4th anniversary of the shares.

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**26. Capital stock (cont'd)**

8) 8th issue

Classification	Details
The right of conversion	① The right of conversion : Owned by preferred stock holder ② The conversion date : from June 30, 2022 to June 30, 2024 (subject to change in accordance with the manner or procedure permitted by statute) ③ Ratio for conversion : A common stock for a preferred stock (However, conversion value is adjusted when there is a reason for adjustments)

The Company's shareholder, Meritz Financial Holding Co., has signed a contract with shareholders of Cube EM 4th Co., Ltd. The contract includes settlements of redeemable convertible preferred stocks, exercises of investors' put options, and contracts for the preferred right of the largest shareholders.

**27. Other capital**

Other capital as of December 31, 2018 and 2017 consist of the following (Korean won in thousands):

	December 31, 2018	December 31, 2017
Paid in capital in excess of par value	₩ 1,407,563,120	₩ 1,407,563,120
Gain on disposal of treasury stock	3,456,342	3,456,342
Others (*)	1,961,311	1,961,311
Treasury stock	(9,717,880)	(9,717,880)
Stock options (*)	2,888,471	2,054,094
	<u>₩ 1,406,151,364</u>	<u>₩ 1,405,316,987</u>

(\*) See share-based payment transaction (Note 28)

Changes in other capital for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Beginning balance	₩ 1,405,316,987	₩ 553,151,474
Acquisition of treasury stock	-	(5,883)
Allocated expense of share based payment	834,377	735,298
Adjustment of capital surplus from merger	-	17,710,181
Issuance of new shares through comprehensive stock exchange	-	198,969,174
Issued convertible preferred stock	-	634,756,743
	<u>₩ 1,406,151,364</u>	<u>₩ 1,405,316,987</u>

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**28. Share-based payment transaction**

The Group and Meritz Financial Group Inc., the holding company of the Group, granted stock options based on the special resolution at the general meeting of shareholders in accordance with the Korean commercial code.

The details of stock options granted by the Group as of December 31, 2018 are summarized as follows (Korean won and number of shares):

	Stock options granted	Settlement date	Number of shares that can be exercised	Exercise price	Exercisable period	Fair value as of grant date (*)
Meritz Securities Co., Ltd.	2,900,000	2015.03.20	2,900,000	₩ 4,380	2020.01.01 ~2024.12.31	₩ 1,109
Meritz Financial Group Inc.	2,000,000	2018.03.16	2,000,000	5,000	2023.01.01 ~2027.12.31	287
	1,209,051	2015.03.20	1,209,051	10,820	2020.01.01 ~2024.12.31	4,838

(\*) The fair value of the share-based payment is the fair value as of grant date, and the fair value of the cash-settled share-based payment is the fair value as of the settlement date.

Changes in stock options granted during the years ended December 31, 2018 and 2017 are summarized as follows (number of shares):

	Year ended December 31, 2018		Year ended December 31, 2017	
	Meritz Securities Co., Ltd.	Meritz Financial Group Inc.	Meritz Securities Co., Ltd.	Meritz Financial Group Inc.
January 1	2,900,000	1,232,000	2,900,000	-
Number of options granted	2,000,000	-	-	-
Increase due to business combination (*)	-	-	-	1,232,000
Exercised	-	-	-	-
Number of options decreased	-	(22,949)	-	-
December 31	4,900,000	1,209,051	2,900,000	1,232,000

(\*) The increase is due to the inclusion of Meritz Capital Co., Ltd. into the Group's consolidation by the comprehensive share exchange in 2017.

Stock option granted by the Group is evaluated by using binomial model of option pricing model, and major inputs of evaluation model are as follows.

	Date	Closing price (*1)	Option price	Expected volatility (*2)	Risk free interest rate	Dividend yield ratio
Meritz Securities Co., Ltd.	2015.03.20	₩ 5,010	₩ 4,380	24.43%	2.12%	4.90%
	2018.03.16	4,510	5,000	14.60%	2.60%	4.41%
Meritz Financial Group Inc.	2015.03.20	₩ 14,250	₩ 10,820	5.56%	2.47%	4.50%

(\*1) The closing price of the share-based payment is the closing price as of grant date, and the closing price of the cash-settled share-based payment is the closing price as of the settlement date.

(\*2) The estimated share volatility is assessed based on equity volatility for the past 5 years.

As the Group was granted stock options, it accounted for ₩4,758,449 thousand and ₩ 4,137,621 thousand as other components of equity as at December 31, 2018 and 2017, respectively. Also, the group accounted for ₩ 839,975 thousand and ₩ 2,668,819 thousand as expenses payable. The Group has accounted for share-based payments (₩ 994,467 thousand) as sales and administrative expense for the year ended December 31, 2018.

**28. Share-based payment transaction (cont'd)**

The Group applies the best practices of the financial investment company's performance compensation system and accordingly, a portion of executive compensation, tied to daily average stock prices, is deferred and paid in cash. These payments are other long-term employee benefits and are accounted as liability, which is measured at fair value at the end of every reporting period. Fair value changes are recognized in profit or loss. For the fair value of the liability, Monte Carlo Simulation is utilized by using the stock price prediction method. Details of the cash-settled share-based payments for the year ended December 31, 2018 are as follows (Korean won in thousands):

	Book value		Before fair value assessment		Variation of fair value		Intrinsic value of liability
₩	60,075,155	₩	64,014,454	₩	(3,939,299)	₩	58,964,507

The Group applies the best practices of the financial investment company's performance compensation system and accordingly, a portion of executive compensation, tied to the Company's ROE, is deferred and paid in cash. These payments are other long-term employee benefits and are accounted as liability, which is measured at fair value at the end of every reporting period. Fair value changes are recognized in profit or loss. Fair value of liability is estimated by using the target ROE and discounted by applying AA- grade rate of return of unsecured financial institution bond which is disclosed by the Korea Financial Investment Association. As of December 31, 2018, details of the performance compensation are as follows (Korean won in thousands):

	Book value		Before fair value assessment		Variation of fair value
₩	35,758,341	₩	26,622,758	₩	9,135,583



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**29. Accumulated other comprehensive income**

Accumulated other comprehensive income as of December 31, 2018 and 2017 consist of the following (Korean won in thousands):

	December 31, 2018	December 31, 2017
Gain on valuation of equity securities measured at FVOCI		
Equity securities	₩ 106,647,209	₩ -
Income tax effect	(29,232,000)	-
	₩ 77,415,209	₩ -
Gain on valuation of debt securities measured at FVOCI		
Debt securities:	₩ 3,321,036	₩ -
Commercial papers	317,892	-
Income tax effect	(997,430)	-
	₩ 2,641,498	₩ -
Gain on valuation of available-for-sale financial assets		
Stock	₩ -	₩ 102,422,639
Bonds	-	(327,883)
Collective investment securities	-	7,299,901
Commercial paper	-	80,097
Income tax effect	-	(28,906,085)
	₩ -	₩ 80,568,669
Gain (loss) on effect of foreign currency translation		
Gain (loss) on effect of foreign currency translation	₩ -	₩ (99,852)
Income tax effect	-	26,401
	₩ -	₩ (73,451)
Remeasurement of the defined benefit liability:		
Actuarial loss	₩ (1,130,995)	₩ (364,986)
Income tax effect	287,884	93,087
	₩ (843,111)	₩ (271,899)
Credit risk fluctuation effect of financial liabilities designated at FVTPL	200,206	-
Income tax effect	(54,877)	-
Non-controlling interest	145,329	-
	₩ 79,358,925	₩ 80,223,319

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**30. Retained earnings**

Retained earnings as of December 31, 2018 and 2017 consist of the following (Korean won in thousands):

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Legal reserve	₩ 58,929,278	₩ 46,049,435
Regulatory reserve for possible loan losses	96,557,921	23,675,829
Voluntary reserves	42,466,457	42,466,457
Unappropriated retained earnings	972,415,932	897,637,962
	<u>₩ 1,170,369,588</u>	<u>₩ 1,009,829,683</u>

Changes in unappropriated retained earnings for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Beginning balance	₩ 897,637,962	₩ 657,790,477
Effect of changes in accounting standards	(8,658,903)	-
Regulatory reserve due to business combination	(13,128,149)	-
Regulatory reserve for possible loan losses(gains)	(59,753,944)	(11,399,590)
Cash dividends	(128,798,436)	(90,700,406)
Reserve of legal reserve	(12,879,844)	(9,070,041)
Reclassification of financial liabilities designated at FVTPL	29,954	-
Net income of non-controlling interests	428,231,340	351,017,522
Redemption of redeemable convertible preferred stocks	(130,264,048)	-
Ending balance	<u>₩ 972,415,932</u>	<u>₩ 897,637,962</u>

In case the total sum of allowance for possible loan losses does not meet the amount prescribed in the Regulations 3-8 on Financial Investment Business, the Group is required to compensate for the difference, if any, at the reporting date as a regulatory reserve for possible loan losses. In case the amount of the existing regulatory reserve for possible loan losses exceeds the amount needed to be set aside as of the current period, the difference, if any, shall be reversed. If there is an undisposed deficit, the Group can accumulate reserves for possible loan losses after disposing of the deficit.

Changes in regulatory reserve for possible loan losses for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Appropriated regulatory reserve for possible loan losses	₩ 96,557,921	₩ 23,675,829
Increase due to business combination (*1)	-	13,128,149
Effect of changes in accounting standards	(11,718,871)	-
Required amount of regulatory reserve for possible loan losses(*2)	80,008,198	59,753,943
Planned provision of regulatory reserve for possible loan losses(*2)	68,289,327	59,753,943
Ending of regulatory reserve for possible loan losses	<u>₩ 164,847,248</u>	<u>₩ 96,557,921</u>

(\*1) The increase is due to the inclusion of Meritz Capital Co., Ltd into the Group's consolidation by the comprehensive share exchange in 2017.

(\*2) The financial investment industry regulations have been revised as to reserve provision for credit losses from the current term.

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**30. Retained earnings (cont'd)**

Provision of regulatory reserve for possible loan losses and adjusted income after the provision of regulatory reserve for possible loan losses for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Net income	₩ 428,231,340	₩ 355,237,196
Planned provision of regulatory reserve for possible loan losses	(80,008,198)	(59,753,943)
Adjusted income after provision of regulatory reserve for possible loan losses (*)	₩ 348,223,142	₩ 295,483,253
Earnings per share	565	521

(\*) Adjusted income after provision of regulatory reserve for possible loan losses is hypothetical amount not in accordance with KIFRS. The amount was calculated by adding (deducting) provision from net income.

The details of dividends accounted for in the statements of appropriation of retained earnings for the years ended December 31, 2018 and 2017 are as follows:

Dividend calculation details (Korean won in thousands):

	Year ended December 31, 2018			
	Number of shares to be assigned(*)	Fixed dividend rate	A dividend per share	Total dividend
Common stock	562,502,877	20%	₩ 200	₩ 112,500,575
preferred stock 2nd	15,434,781	22%	224	3,460,287
preferred stock 3rd	23,913,042	18%	179	4,290,000
preferred stock 4th	21,739,130	18%	179	3,900,000
preferred stock 5th	8,695,652	38%	378	3,288,000
preferred stock 6th	5,434,782	41%	409	2,225,000
preferred stock 7th	7,608,695	42%	415	3,163,999
preferred stock 8th	15,217,391	43%	429	6,538,000
	<u>660,546,350</u>			<u>₩ 139,365,861</u>

  

	Year ended December 31, 2017			
	Number of shares to be assigned(*)	Fixed dividend rate	A dividend per share	Total dividend
Common stock	562,502,877	20%	₩ 200	₩ 112,500,575
preferred stock 1st	13,804,345	20%	204	2,816,964
preferred stock 2nd	15,434,781	11%	108	1,682,214
preferred stock 3rd	23,913,042	9%	90	2,162,630
preferred stock 4th	21,739,130	9%	90	1,966,027
preferred stock 5th	8,695,652	19%	190	1,657,512
preferred stock 6th	5,343,782	21%	206	1,121,644
preferred stock 7th	7,608,695	21%	209	1,595,003
preferred stock 8th	15,217,391	22%	216	3,295,868
	<u>674,259,695</u>			<u>₩ 128,798,437</u>

(\*) Treasury stock held by the Company is excluded as of December 31, 2018 and 2017.

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**30. Retained earnings (cont'd)**

Dividend payout ratio (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Total dividend	₩ 139,365,862	₩ 128,798,437
Net income attributable to equity holders of the parent	428,231,340	351,017,522
Dividend payout ratio	32.54%	36.69%

Dividend yield ratio (\*1) (Korean won in one):

	Year ended December 31, 2018	Year ended December 31, 2017
A dividend per share	₩ 200	₩ 200
Average of pre-dividend closing price per share(*2)	4,426	4,659
Dividend yield ratio	4.50%	4.3%

(\*1) Since preferred stocks were not listed, the dividend yield rate was calculated only for common stock.

(\*2) The arithmetic average of the closing price announced in the previous week until 2 days ago from the dividend date.

**31. Net fees and commission income**

Net fees and commission income for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Fees and commission income:		
Brokerage commissions	₩ 89,242,028	₩ 74,506,857
Underwriting commissions	22,011,807	15,859,737
Brokerage commissions on collective investment securities	5,729,413	4,791,418
Management fees on wrap account and asset management	3,536,925	2,740,657
Finance commissions	184,670,841	178,260,212
Fees on trust accounts	3,132,649	3,378,711
Commissions on CMA	9,992	17,966
Others	126,475,274	133,300,301
	₩ 434,808,929	₩ 412,855,859
Fees and commission expense:		
Trading commissions	(9,986,827)	(6,909,411)
Lending and borrowing transaction commissions	(18,954,657)	(10,304,481)
Others	(37,353,602)	(24,518,367)
	₩ (66,295,086)	₩ (41,732,259)
	₩ 368,513,843	₩ 371,123,600

The revenue recognized at a point in time is ₩340,115,657,000 thousand and the revenue recognized over a period of time is ₩94,693,271,000 thousand for the year ended December 31, 2018.

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**32. Gain (loss) on financial assets and liabilities**

Gain (loss) on financial assets does not include interest income and dividends income. Interest income and dividends income are disclosed separately in Notes 33 and 35, respectively.

Gain (loss) on financial instruments measured at FVTPL and CMA assets for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

Year ended December 31, 2018					
	Gain on disposal	Loss on disposal	Gain on valuation	Loss on valuation	Net gain (loss)
<b>Financial assets</b>					
Measured at FVTPL					
Stock	₩ 197,707,854	₩ (226,492,974)	₩ 6,743,743	₩ (11,746,629)	₩ (33,788,006)
Bonds	319,547,522	(171,489,385)	47,772,532	(8,491,492)	187,339,177
Collective investment securities	374,249,004	(432,222,442)	2,241,543	(18,745,833)	(74,477,728)
Commercial paper	5,365,834	(129,315)	11,898	(24,782)	5,223,635
Asset backed short-term bonds	3,300,577	(5,631)	9,921	(136)	3,304,731
Loans	334,775	-	-	(5,646,555)	(5,311,780)
Compound financial instruments	25,490,106	(1,386,539)	6,507,978	(18,926,958)	11,684,587
Reserve for claims of customers' deposits (trust)	-	-	7,657,322	-	7,657,322
Equity-linked securities	723,993	-	8,922	(210,702)	522,213
Stock warrant	-	(39,207)	1,084	(169,257)	(207,380)
Derivatives linked securities	-	-	-	(33,758)	(33,758)
Others	252,884	(12,418)	9,181,734	(1,075,665)	8,346,535
CMA-notes discounted	4,940	-	-	(4,576)	364
	<u>₩ 926,977,489</u>	<u>₩ (831,777,911)</u>	<u>₩ 80,136,677</u>	<u>₩ (65,076,343)</u>	<u>₩ 110,259,912</u>
<b>Financial liabilities</b>					
Measured at FVTPL					
Securities sold	282,043,321	(148,277,229)	23,570,253	(3,948,092)	153,388,253
Bonds sold	62,089,388	(140,157,506)	843,133	(19,949,651)	(97,174,636)
Collective investment securities sold	370,479	(533,675)	127,699	(280,364)	(315,861)
	<u>₩ 344,503,188</u>	<u>₩ (288,968,410)</u>	<u>₩ 24,541,085</u>	<u>₩ (24,178,107)</u>	<u>₩ 55,897,756</u>
	<u>₩ 1,271,480,677</u>	<u>₩ (1,120,746,321)</u>	<u>₩ 104,677,762</u>	<u>₩ (89,254,450)</u>	<u>₩ 166,157,668</u>
Year ended December 31, 2017					
	Gain on disposal	Loss on disposal	Gain on valuation	Loss on valuation	Net gain (loss)
<b>Financial assets</b>					
held-for-trading:					
Stock	₩ 162,764,099	₩ (109,283,772)	₩ 17,773,674	₩ (3,075,095)	₩ 68,178,906
Bonds	160,920,051	(199,740,961)	5,420,760	(25,152,258)	(58,552,408)
Collective investment securities	205,355,067	(148,820,510)	10,977,542	(871,573)	66,640,526
Commercial paper	23,403,118	(1,821,594)	29,400	(116,112)	21,494,812
Asset backed short-term bonds	9,422,128	(331,476)	-	-	9,090,652
	<u>₩ 561,864,463</u>	<u>₩ (459,998,313)</u>	<u>₩ 34,201,376</u>	<u>₩ (29,215,038)</u>	<u>₩ 106,852,488</u>
<b>Financial liabilities</b>					
held-for-trading:					
Securities sold	75,414,952	(145,834,609)	8,029,800	(6,803,075)	(69,192,932)
Bonds sold	87,673,153	(82,652,732)	2,537,022	(1,631,530)	5,925,913
Collective investment securities sold	19,517	(106,362)	-	(283,989)	(370,834)
	<u>₩ 163,107,622</u>	<u>₩ (228,593,703)</u>	<u>₩ 10,566,822</u>	<u>₩ (8,718,594)</u>	<u>₩ (63,637,853)</u>
	<u>₩ 724,972,085</u>	<u>₩ (688,592,016)</u>	<u>₩ 44,768,198</u>	<u>₩ (37,933,632)</u>	<u>₩ 43,214,635</u>

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**32. Gain (loss) on financial assets and liabilities (cont'd)**

Gain (loss) on financial assets and liabilities designated at fair value through profit or loss for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018				
	Gain on disposal	Loss on Disposal	Gain on valuation	Loss on valuation	Net gain (loss)
Financial liabilities designated at fair value through profit or loss:					
Equity linked securities sold	₩ 150,784	₩ (138,612,019)	₩ 209,460,949	₩ (7,051,077)	₩ 63,948,637
Derivative linked securities sold	107,828	(68,710,535)	15,761,926	(3,278,120)	(56,118,901)
Others	1,824,481	(493,188)	2,728,010	-	4,059,303
	<u>₩ 2,083,093</u>	<u>₩ (207,815,742)</u>	<u>₩ 227,950,885</u>	<u>₩ (10,329,197)</u>	<u>₩ 11,889,039</u>
	Year ended December 31, 2017				
	Gain on disposal	Loss on Disposal	Gain on valuation	Loss on valuation	Net gain (loss)
Financial assets designated at fair value through profit or loss:					
Equity linked securities	₩ 510,018	₩ -	₩ -	₩ (4,077)	₩ 505,941
Derivatives linked securities	6	-	-	-	6
Reserve for claims of customers' deposits (trust)	-	-	4,926,589	-	4,926,589
Others	2,417,411	(461,624)	23,226,958	(437,986)	24,744,759
	<u>₩ 2,927,435</u>	<u>₩ (461,624)</u>	<u>₩ 28,153,547</u>	<u>₩ (442,063)</u>	<u>₩ 30,177,295</u>
Financial liabilities designated at fair value through profit or loss:					
Equity linked securities sold	9,120	(1,785,750)	1,847,786	(2,264)	68,892
Derivative linked securities sold	2,293,224	(4,014,475)	309,018	(3,034,647)	(4,446,880)
Others	-	(2,386,104)	-	(38,640)	(2,424,744)
	<u>₩ 2,302,344</u>	<u>₩ (8,186,329)</u>	<u>₩ 2,156,804</u>	<u>₩ (3,075,551)</u>	<u>₩ (6,802,732)</u>
	<u>₩ 5,229,779</u>	<u>₩ (8,647,953)</u>	<u>₩ 30,310,351</u>	<u>₩ (3,517,614)</u>	<u>₩ 23,374,563</u>

**32. Gain (loss) on financial assets and liabilities (cont'd)**

Gain (loss) on financial assets measured at FVTPL for the years ended December 31, 2018 are as follows (Korean won in thousands):

	Year ended December 31, 2018			
	Gain on disposal	Loss on disposal	Reversal of expected credit loss	Net gain (loss)
Bonds	-	-	2,263,616	2,263,616
Corporate note	-	-	2,352,367	2,352,367
	₩ -	₩ -	₩ 4,615,983	₩ 4,615,983

Gain (loss) on available-for-sale financial assets for the years ended December 31, 2017 was as follows (Korean won in thousands):

	Year ended December 31, 2017			
	Gain on disposal	Loss on disposal	Impairment loss	Net gain (loss)
Stock	₩ 4,370,329	₩ (1,148,709)	₩ (2,101,474)	₩ 1,120,146
Bonds	2,696,087	(415,566)	-	2,280,521
Collective investment securities	1,631,056	(1,593)	(6,297,613)	(4,668,150)
Foreign currency securities	-	-	-	-
Corporate note	482	-	-	482
Others	28,539	(46,743)	-	(18,204)
	₩ 8,726,493	₩ (1,612,611)	₩ (8,399,087)	₩ (1,285,205)

Gain (loss) on other financial liabilities for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018			
	Loss on redemption	Gain on valuation	Loss on valuation	Net gain
Debentures	₩ -	₩ -	₩ -	₩ -
Other financial liabilities	-	51	(2)	49
	₩ -	₩ 51	₩ (2)	₩ 49

	Year ended December 31, 2017			
	Loss on redemption	Gain on valuation	Loss on valuation	Net gain
Debentures	₩ -	₩ -	₩ -	₩ -
Other financial liabilities	-	1,027	(1)	1,026
	₩ -	₩ 1,027	₩ (1)	₩ 1,026



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**32. Gain (loss) on financial assets and liabilities (cont'd)**

Gain (loss) on financial derivatives for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018				
	Gain on disposal/ redemption	Loss on disposal/ redemption	Gain on valuation	Loss on valuation	Net gain(loss)
Exchange-traded derivatives:					
Futures	₩ 422,784,368	₩ (568,307,393)	₩ 11,221,739	₩ (191,564,452)	₩ (325,865,738)
Option	141,987,202	(88,377,775)	172,435,447	(42,683,933)	183,360,941
Over-the-counter derivatives:	3,791,608,479	(3,714,461,993)	117,417,208	(256,253,216)	(61,689,522)
	<u>₩ 4,356,380,049</u>	<u>₩ (4,371,147,161)</u>	<u>₩ 301,074,394</u>	<u>₩ (490,501,601)</u>	<u>₩ (204,194,319)</u>
	Year ended December 31, 2017				
	Gain on disposal/ redemption	Loss on disposal/ redemption	Gain on valuation	Loss on valuation	Net gain(loss)
Exchange-traded derivatives:					
Futures	₩ 286,341,752	₩ (285,850,246)	₩ 6,384,135	₩ (18,341,600)	₩ (11,465,959)
Option	59,587,326	(51,468,590)	6,940,032	(6,135,896)	8,922,872
Over-the-counter derivatives:	2,292,756,425	(2,282,235,734)	24,965,088	(32,121,012)	3,364,767
	<u>₩ 2,638,685,503</u>	<u>₩ (2,619,554,570)</u>	<u>₩ 38,289,255</u>	<u>₩ (56,598,508)</u>	<u>₩ 821,680</u>

**33. Net interest income**

Net interest income for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Interest income:		
Cash and due from banks	₩ 22,766,367	₩ 15,391,317
Held-for-trading financial assets	313,542,199	177,976,355
Financial assets measured at FVOCI	39,203,152	-
Available-for-sale financial assets	-	28,113,434
Loans, etc.	646,249,202	429,811,177
CMA	79,605	170,711
Others	22,256,648	11,420,629
	<u>₩ 1,044,097,173</u>	<u>₩ 662,883,623</u>
Interest expense:		
Deposits	(33,803,530)	(36,095,037)
Borrowings	(200,910,607)	(146,961,275)
Bonds	(148,512,341)	(99,247,946)
Others	(18,980,143)	(17,106,939)
	<u>(402,206,621)</u>	<u>(299,411,197)</u>
	<u>₩ 641,890,552</u>	<u>₩ 363,472,426</u>

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**34. Selling and administrative expense**

Selling and administrative expenses for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Payroll expenses:		
Salary expenses	₩ 324,378,791	₩ 259,125,708
Post-employment benefits (DB)	4,202,962	4,485,969
Post-employment benefits (DC)	5,169,324	4,666,012
Early retirement benefits	1,127,564	546,764
Compensation Expenses Associated with Stock Option	(994,467)	3,404,116
	₩ 333,884,174	₩ 272,228,569
General and administrative expenses:		
Employee benefits	31,757,541	26,627,928
Electronic data processing expenses	9,422,642	8,850,712
Rental expense	8,407,006	8,174,446
Commission expense	45,466,925	25,339,703
Entertainment expenses	8,033,553	7,312,317
Advertising expense	3,168,497	2,158,839
Depreciation	7,149,819	7,295,108
Training expenses	167,638	205,974
Amortization	3,146,678	5,705,156
Taxes and dues	34,097,970	25,540,055
Others	17,370,221	15,349,959
	₩ 168,188,490	₩ 132,560,197
	₩ 502,072,664	₩ 404,788,766

**35. Other operating income (expense)**

Other operating income (expense) for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Other operating income:		
Dividends on financial assets held for trading	₩ 18,634,924	₩ 8,580,663
Dividends on financial assets measured at FVOCI	3,089,213	-
Dividends on available-for-sale financial assets	-	4,923,729
Reversal of other provisions	26,158	8,269,944
Reversal of credit risk adjustments	15,722,845	24,891
Reversal of deferred day 1 profit or loss adjustments	160,105,891	9,993,426
Others	5,270,470	1,086,926
	₩ 202,849,501	₩ 32,879,579
Other operating expenses:		
Provision for other doubtful accounts	(1,042,653)	(1,035,759)
Provision for other provisions	(7,751,819)	(63,000)
Provision for credit risk adjustments	(979,941)	(207,115)
Amortization of deferred day 1 profit or loss adjustments	(124,560,055)	(835,521)
Others	(858,345)	(1,145,315)
	₩ (135,192,813)	₩ (3,286,710)
	₩ 67,656,688	₩ 29,592,869

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**36. Non-operating income (expense)**

Non-operating income (expense) for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Non-operating income:		
Gain on disposal property and equipment	₩ -	₩ 1,248,730
Gains on disposition of real-estate investment	-	2,155,919
Rental fee income	829,210	892,933
Share of earnings from investments in associates and joint ventures	28,259,978	15,692,528
Gain on disposal subsidiaries and associates	55,314,084	7,086,891
Gain on Sale of Intangible Assets	-	585,557
Others	521,102	411,856
	<u>₩ 84,924,374</u>	<u>₩ 28,074,414</u>
Non-operating expense:		
Loss on disposal property and equipment	(18,503)	(237,250)
Loss on disposal investment properties	-	(566,849)
Loss on disposal intangible assets	-	(45,095)
Share of losses from investments in associates and joint ventures	(12,149,330)	(1,297,674)
Loss on disposal subsidiaries and associates	(8,704,497)	(2,271,148)
Others	(7,178,747)	(868,678)
	<u>₩ (28,051,077)</u>	<u>₩ (5,286,694)</u>
	<u>₩ 56,873,297</u>	<u>₩ 22,787,720</u>

**37. Income taxes**

The major components of income tax expense for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Current income taxes	₩ 163,639,145	₩ 118,843,099
Adjustments of prior year's income tax	1,673,420	(666,815)
Changes in deferred income taxes due to temporary differences	(6,379,236)	40,291,454
Deferred income tax income from unrecognized deferred income tax assets(liabilities)	(607,786)	(43,585,659)
Current and deferred income taxes recognized directly to equity :		
Gain (loss) on valuation of equity securities measured at FVOCI	(2,014,824)	-
Gain (loss) on valuation of debt securities measured at FVOCI	(1,062,352)	-
Gain (loss) on valuation of available-for-sale financial assets	-	(3,823,623)
Equity method capital change	-	173,028
Gain (loss) on valuation financial liabilities designated at FVTPL	(43,741)	-
Loss (gain) on effect of foreign currency translation	-	26,401
Remeasurement of the defined benefit liability	194,796	(124,880)
Income tax expense financial debt security measured at FVOCI to retained gain	<u>₩ 155,399,422</u>	<u>₩ 111,133,005</u>

**37. Income taxes (cont'd)**

Details of the relationship between income tax expense and income before income taxes for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Income before income taxes	₩ 589,222,448	₩ 466,370,202
Income taxes at statutory tax rate (*)	151,674,173	112,399,588
Adjustments:		
Non-deductible expenses and others	2,450,283	1,910,342
Non-taxable income and others	(3,314,221)	(1,404,556)
Income tax on undistributed corporate earnings	11,600,831	860,420
Adjustments of prior year's income tax	1,673,420	(666,815)
Others	(8,685,064)	(1,965,974)
Income tax expense	₩ 155,399,422	₩ 111,133,005
Effective income tax rate	26.37%	23.83%

(\*) Tax rates applicable, at the aggregate of income tax rate and local tax rate, are 11% for income below ₩200 million and 22% for income above ₩200 million and below ₩20 billion and 24.2% for income above ₩20 billion and below ₩300 billion and 27.5% for income above ₩300 billion for the years ended December 31, 2018 and 2017.

The details of tax liabilities as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Deferred income tax assets	₩ 97,708,831	₩ 82,969,767
Income tax assets	97,708,831	82,969,767
Current income tax liabilities	75,835,137	55,107,460
Income tax liabilities	75,835,137	55,107,460

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**37. Income taxes (cont'd)**

Temporary differences and deferred income tax assets (liabilities) as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018	December 31, 2017
Finance lease receivables	₩ (6,968,786)	₩ (5,012,131)
Financial assets measured at FVTPL	(2,196,971)	
Loss on valuation of financial liabilities measured at FVTPL	(99,493)	(487,017)
Gain (loss) on valuation of financial assets measured at FVTPL	(2,989,172)	(1,307,065)
Financial instruments designated at FVTPL	14,208,344	(4,750,770)
Gain (loss) on valuation of derivatives-combined securities sold	(98,793,051)	(17,289)
Gain (loss) on valuation of derivatives-combined securities	155,714	273
Loss on valuation of derivative instruments	83,279,319	(32,810)
Deferred loan fee	8,585,588	5,655,635
Deferred day 1 profit or loss	7,544,187	(204,804)
Gain (loss) on foreign transactions	(589,474)	827,494
Allowance for loan losses	20,969	45,520
Lease	(2,234,176)	-
Withdrawal of sales transaction	(224,068)	(216,139)
Financial assets measured at FVOCI	(29,931,559)	-
Available-for-sale financial assets	-	(24,698,896)
Accrued income	1,697,279	(8,293,287)
Accrued expenses	50,990,234	49,942,490
Credit risk-adjusted	(4,297,672)	(42,836)
Property and equipment, intangible assets	(7,846,506)	(7,437,287)
Subsidiaries and associates	(40,903,381)	(39,509,452)
Allowance accounts	3,105,909	432,155
Retirement pension premium	(4,031,337)	(3,081,726)
Defined benefit liabilities	4,298,100	3,523,868
Treasury stock	63,683,197	60,577,921
Loss on merger	6,045,208	9,402,755
Others	11,006,984	4,067,506
	<u>₩ 53,515,386</u>	<u>₩ 39,384,108</u>
Unrecognized deferred tax liabilities	44,193,445	43,585,659
Deferred Income Taxes Assets	97,708,831	82,969,767
Deferred income tax assets	254,621,032	134,475,617
Deferred income tax liabilities	(156,912,201)	(51,505,850)

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**37. Income taxes (cont'd)**

Changes in the temporary differences and deferred income tax assets (liabilities) for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018		
	Beginning balance (*1)	Changes	Ending balance
Financial lease receivables	₩ (29,939,881)	₩ 623,179	₩ (29,316,702)
Financial assets measured at FVTPL	98,813	(8,408,083)	(8,309,270)
Gain (loss) on valuation of financial liabilities measured at FVTPL	(1,848,228)	1,485,249	(362,979)
Gain (loss) on valuation of financial assets measured at FVTPL	(4,937,256)	(5,968,149)	(10,905,405)
Financial instruments designated at FVTPL	(17,463,904)	69,596,774	52,132,870
Gain (loss) on valuation of derivatives-combined securities sold	(65,391)	(360,361,648)	(360,427,039)
Gain (loss) on valuation of derivatives-combined securities	1,032	567,059	568,091
Gain (loss) on valuation of derivative instruments	(124,091)	303,853,653	303,729,562
Deferred loan fee	2,995,492	24,367,204	27,362,696
Deferred day 1 profit or loss	(774,598)	28,298,080	27,523,482
Gain (loss) on foreign transactions	3,129,704	(5,349,734)	(2,220,030)
Allowance for loan losses	(715,733)	792,233	76,500
Lease	(4,932,190)	(4,474,000)	(9,406,190)
Withdrawal of sales transaction	(817,468)	-	(817,468)
Financial assets measured at FVOCI	(91,839,838)	(17,201,642)	(109,041,480)
Available-for-sale financial assets	-	-	-
Accrued income	17,440,500	(7,722,673)	9,717,827
Accrued expenses	183,668,424	13,458,074	197,126,498
Credit risk-adjusted	(756,062)	(14,923,151)	(15,679,213)
Property and equipment, intangible assets	(28,488,345)	(321,242)	(28,809,587)
Subsidiaries and associates	(164,763,664)	2,896,294	(161,867,370)
Allowance accounts	4,281,334	7,114,593	11,395,927
Retirement pension premium	(14,652,778)	(1,199,904)	(15,852,682)
Defined benefit liabilities	14,567,457	2,334,234	16,901,691
Treasury stock	250,425,472	-	250,425,472
Loss from merger	36,433,284	(14,378,529)	22,054,755
Others	35,537,598	1,963,984	37,501,582
	₩ 186,459,683	₩ 17,041,855	₩ 203,501,538
Unrecognized deferred tax liabilities (*2)	(180,180,482)	6,395,800	(173,784,682)
Deferred income tax liabilities	₩ 90,721,809	₩ 6,987,022	₩ 97,708,831

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**37. Income taxes (cont'd)**

	Year ended December 31, 2017		
	Beginning balance (*1)	Changes	Ending balance
Financial lease receivables	₩ (29,712,264)	₩ (227,617)	₩ (29,939,881)
Gain (loss) on valuation of financial liabilities held-for-trading	(3,392,430)	1,550,458	(1,841,972)
Gain (loss) on valuation of financial assets held-for-trading	24,604,925	(29,548,438)	(4,943,513)
Gain (loss) on valuation of financial assets designated at fair value through profit or loss	6,182,781	(24,146,685)	(17,963,904)
Gain (loss) on valuation of derivatives-combined securities sold	6,007,487	(6,072,878)	(65,391)
Gain (loss) on valuation of derivatives-combined securities	(76,996)	78,028	1,032
Gain (loss) on valuation of derivative instruments	(47,588,913)	47,464,822	(124,091)
Deferred loan fee	(9,675,998)	11,116,201	1,440,203
Deferred day 1 profit or loss	2,256,725	(3,031,323)	(774,598)
Gain (loss) on foreign transactions	(2,302,922)	5,432,626	3,129,704
Allowance for loan losses	1,133,061	(960,898)	172,163
Lease	(2,345,283)	(2,586,907)	(4,932,190)
Withdrawal of sales transaction	(817,468)	-	(817,468)
Available-for-sale financial assets	(72,648,398)	(19,927,552)	(92,575,950)
Accrued income	(23,542,377)	(7,824,063)	(31,366,440)
Accrued expenses	137,107,524	68,996,523	206,104,047
Credit risk-adjusted	(344,237)	182,224	(162,013)
Property and equipment, intangible assets	(32,113,729)	3,787,221	(28,326,508)
Subsidiaries and associates	18,030,061	(182,793,725)	(164,763,664)
Allowance accounts	10,304,486	(8,234,462)	2,070,024
Retirement pension premium	(10,312,113)	(2,427,556)	(12,739,669)
Defined benefit liabilities	12,700,763	1,866,694	14,567,457
Treasury stock	250,425,472	-	250,425,472
Loss from merger	50,278,175	(14,715,563)	35,562,612
Others	47,917,330	(15,510,316)	32,407,014
	₩ 332,075,662	₩ (177,533,186)	₩ 154,542,476
Unrecognized deferred tax liabilities (*2)	-	(180,180,482)	(180,180,482)
Deferred income tax liabilities	₩ 79,675,562	₩ 3,294,205	₩ 82,969,767

(\*1) Beginning temporary difference and deferred income taxes have been calculated reflecting the changes in the final income tax return and mergers.

(\*2) The deferred income tax liabilities, caused by the temporary difference in shares in Meritz Capital, were not recognized.

Deferred income tax assets (liabilities) are measured at the average tax rates that are expected to be applied in the year when the related temporary differences are expected to reverse, based on tax rates (and tax laws) that have been enacted at the reporting date.



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**38. Earnings per share**

The Group presents basic earnings per share attributable to its common stock holders in the statement of comprehensive income. Basic earnings per share amounts are calculated by dividing the net profit for the period attributable to common stock holders of the parent by the weighted average number of common shares outstanding during the period.

Basic earnings per share amounts for the years ended December 31, 2018 and 2017 are as follows (Korean won except per share amounts):

	Year ended December 31, 2018	Year ended December 31, 2017
Net income attributable to the common stock holder of the parent	₩ 398,101,980,608	₩ 334,719,660,779
Weighted average number of common stock outstanding (*)	562,502,877	527,562,870
Basic earnings per share	₩ 708	₩ 634

(\*) Weighted average number of common stock outstanding is calculated by deducting treasury stock from total issued stock.

Diluted earnings per share amounts for the years ended December 31, 2018 and 2017 are as follows (Korean won):

	Year ended December 31, 2018	Year ended December 31, 2017
Net income attributable to equity holders of the parent	₩ 398,101,980,608	₩ 334,719,660,779
Redeemable convertible preferred stock dividend	30,129,358,995	16,297,861,706
Dilution gain on controlling common equity (A)	₩ 428,231,339,603	₩ 351,017,522,485
Weighted average number of ordinary shares outstanding	562,502,877	527,562,870
Dilution effect _convertible preferred stock	105,985,699	56,996,422
Weighted average number of common shares outstanding considering dilution effect (B)	668,488,576	584,559,292
Diluted earnings per share (A/B)	₩ 641	₩ 600

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**39. Assets and liabilities denominated in foreign currencies**

Significant assets and liabilities denominated in foreign currencies as of December 31, 2018 and 2017 are as follows (Korean won in thousands or USD, JPY, EUR, HKD, NOK, CNH, AUD, GBP, CAD, TRY, VND, SGD SEK):

	Currency	December 31, 2018	
		Amount in foreign currency in unit	Korean won equivalent
Assets in foreign currencies:			
Cash and due from banks			
	USD	96,271,871	₩ 107,641,579
	EUR	35,993,400	46,041,317
	HKD	179,152,850	25,577,652
	JPY	11,766,305,551	119,213,855
	GBP	24,450	34,727
	CNH	11,922,215	1,940,460
	AUD	102,262	80,563
	CAD	101,922	83,612
	SGD	833,837	682,312
	SEK	104,511	13,020
	TRY	28,898	6,094
	VND	7,034,811,364	339,078
Financial assets measured at FVTPL			
	USD	665,868,041	744,507,057
	EUR	28,474,226	36,423,090
	JPY	299,342,400	3,032,877
	SEK	-	-
	CNH	-	-
	HKD	14,100,000	2,013,057
	SGD	24,276,000	19,864,565
	VND	339,774,636,600	16,377,137
	AUD	43,918,919	34,599,764
Loans			
	USD	249,702,272	279,192,111
	EUR	20,000,000	25,583,200
	AUD	68,208,400	53,735,260
	HKD	1,283,674,731	183,270,241
	GBP	291,548,923	414,092,766
Other assets			
	USD	72,648,700	81,228,511
	EUR	85,869	109,840
	JPY	303,000	3,070
	SEK	-	-
	HKD	2,228,120	318,109
	AUD	2,212,276	1,742,853
			<u>₩ 2,197,747,777</u>

39. Assets and liabilities denominated in foreign currencies (cont'd)

	December 31, 2018		
	Currency	Amount in foreign currency in unit	Korean won equivalent
Liabilities in foreign currency:			
Deposits	USD	1,073,970	₩ 1,200,806
	CNH	3,100,381	504,618
	HKD	483,152	68,981
	JPY	101	1
	TRY	-	-
	AUD	2	2
	SGD	366,914	300,239
Financial liabilities at measured at FVTPL	USD	294,681,419	329,483,295
Borrowings	USD	311,637,417	348,441,796
	EUR	26,319,011	33,666,226
Other liabilities	USD	40,000,000	44,724,000
	JPY	-	-
	EUR	-	-
	HKD	3,511,807	501,381
	VND	2,060,800,510	99,331
			<u>₩ 758,990,676</u>
	December 31, 2017		
	Currency	Amount in foreign currency in unit	Korean won equivalent
Assets in foreign currencies:			
Cash and due from banks	USD	54,040,964	₩ 57,899,490
	EUR	7,926,478	10,139,948
	HKD	4,433,728	607,731
	JPY	22,315,161	211,795
	GBP	-	-
	CNH	4,734,566	774,812
	AUD	2,316	1,934
	NOK	-	-
	CAD	1,967	1,677
	MYR	-	-
	BRL	-	-
	SEK	189	24
Financial assets at fair value through profit or loss	USD	96,051,887	102,909,992
	JPY	398,911,000	3,786,104
	SEK	224,366,495	29,145,208
	CNH	4,724,505	773,165
	HKD	1,781,275	244,159
Available-for-sale financial assets	USD	-	-
Loans	USD	135,000,000	144,639,000
Other assets	USD	14,356,623	15,381,686
	EUR	102,867	131,592

39. Assets and liabilities denominated in foreign currencies (cont'd)

	December 31, 2017		
	Currency	Amount in foreign currency in unit	Korean won equivalent
	JPY	456,986	4,337
	SEK	34,500	4,482
			<u>₩ 366,657,136</u>
Liabilities in foreign currency:			
Deposits	USD	895,621	₩ 959,568
Financial liabilities at fair value through profit or loss	USD	6,003,264	6,431,897
Borrowings	USD	34,357,933	36,811,089
Other liabilities	USD	16,000,000	17,142,400
	JPY	28,039	35,868
			<u>₩ 61,380,822</u>

40. Restricted balances in due from banks and pledged assets

Restricted balances in due from banks as of December 31, 2018 and 2017 are summarized as follows (Korean won in thousands):

	Counterparty	Others information	December 31, 2018	December 31, 2017
Cash and Deposits:				
Restricted due from financial institutions	KB Bank and others	Deposits for checking accounts	₩ 84,500	₩ 84,500
Long-term deposits	Woori Bank and others	Pledged for settlement	368,200,000	2,000,000
Reserve for claims of customers' deposits	Korea Securities Finance Corporation ("KSFC")	(*)	103,000,000	194,000,000
Margin on securities market	KRX		12,000,000	11,000,000
Guarantee deposits for loan transaction	Korea Securities Depository and others		83,804,556	12,281,321
Guarantee deposits for trading futures and options (brokerage)	KRX		101,442,800	49,946,101
Financial asset at fair value through profit or loss: Reserve for claims of customers' deposits(Trust)	KSFC	(*)	461,736,495	372,231,592
Available-for-sale financial assets:				
Collective fund for default loss	KRX		22,890,102	12,165,148
			<u>₩ 1,153,158,453</u>	<u>₩ 653,708,662</u>

(\*) Pursuant to the *Financial Investment Services and Capital Markets Act*, the Group is required to place a deposit on a daily basis in Korea Securities Finance Corporation ("KSFC") as a reserve against customers' deposits for the trading of stocks, derivatives and for other purposes. These deposits should exceed the amount which is calculated by deducting cash commission guarantee from total customers' deposit.

**40. Pledged assets (cont'd)**

Details of securities pledged as collateral for operating activities including derivative transactions, loan transactions and borrowings as of the reporting date are as follows (Korean won in thousands):

				December 31, 2018	
Pledged to	Description of pledged asset	Pledged amount(*)	Pledged for		
KRX	Bonds	₩ 410,064,638	Derivative transaction		
KSD & KSFC	ETF beneficiary certificate, Stocks, CP, Bonds	3,068,338,685	Lending and borrowing transactions		
KSD and others	Bonds	7,086,631,227	Bonds under repurchase agreements		
KSFC and others	Bonds	24,670,633	Payment fund		
RREEF Spezial Invest GmbH	Bonds	1,885,465	Withholdings		
		<u>₩ 10,591,590,648</u>			
				December 31, 2017	
Pledged to	Description of pledged asset	Pledged amount(*)	Pledged for		
KRX	Bonds	₩ 74,037,425	Derivative transaction		
KSD & KSFC	ETF beneficiary certificate, Stocks, CP, Bonds	2,415,932,089	Lending and borrowing transactions		
KSD and others	Bonds	6,774,070,162	Bonds under repurchase agreements		
KSFC and others	Bonds	26,070,057	Payment fund		
RREEF Spezial Invest GmbH	Bonds	1,884,010	Withholdings		
		<u>₩ 9,291,993,743</u>			

(\*) The amount excludes restricted balances and beneficial interests in trust, calculated from the closing price of collateral or based on External Credit Assessment Institution's valuation. The collateral is included in borrowing securities.

#### 41. Guarantees and commitments

##### Credit line facilities

The Group has the following agreements with several banks as of December 31, 2018 (Korean won in thousands, USD):

Agreement	Bank	Currency	Maximum limit	Maturity date
Intraday overdraft	Woori Bank	KRW	10,000,000	2019.09.06
Intraday overdraft	Woori Bank	KRW	50,000,000	2019.09.06
Intraday overdraft	Hana Bank	KRW	10,000,000	2019.10.29
Intraday overdraft	Shinhan Bank	KRW	20,000,000	2019.09.05
Intraday overdraft	KB Bank	KRW	5,000,000	2019.11.22
Overdraft	KB Bank	KRW	5,000,000	2019.07.05
Overdraft	Daegu Bank	KRW	5,000,000	2019.07.01
Exhortation guarantee	Meritz Financial Group	KRW	860,000,000	-
Limit on non-disclosure commitments	Meritz Fire & Marine Insurance	KRW	150,000,000	2019.09.17
Performance payment guarantee	Seoul guarantee Insurance The Korea	-	7,972,901	Individual contract
Usance letter of credit	Development Bank	USD	10,000,000	2019.06.09
At sight letter of credit commitment with limit	Woori Bank China Everbright Bank Industrial and Commercial Bank of	USD	7,000,000 10,000,000	2019.07.05 2019.07.18
commitment with limit	China		30,000,000	2019.10.17
Outstanding notes	Shinhan Bank		10,000,000	2019.03.18
Note discounted	KSFC	KRW	200,000,000	2019.10.31
Note discounted	KSFC	-	Subscription money	2019.10.31
Agency operating funds	KSFC	KRW	400,000,000	2020.03.02
Agency operating funds (trust)	KSFC	-	Within the scope of trust funds	2020.03.02
Financial capital distribution	KSFC	KRW	300,000,000	2022.03.29
Mortgage financing	KSFC	KRW	830,000,000	2020.04.30
Call half the day	KSFC	KRW	200,000,000	2020.03.03
Financial bond dealer	KSFC	KRW	500,000,000	2020.03.31

##### Lawsuit

The Group is involved in 30 lawsuits (plaintiff: 11 cases, defendant: 19 cases) with the total claim amounting ₩42,167 million. The Group provided provisions estimated from previous experiences in similar lawsuits (balance of provisions: ₩295 million) as of December 31, 2018 (Note 22).

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**41. Guarantees and commitments (cont'd)**

**Purchase agreement**

The Group's purchase agreements as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018	
	Maximum limit	Balance
ABCP purchase commitment (*1,4)	₩ 427,800,000	₩ 427,800,000
Commitments for securities acceptance	-	-
Conditional loan commitment	-	-
Conditional commitments for securities acceptance (*4)	191,300,000	191,300,000
Loans on limit (*4)	5,573,913,449	3,823,200,669
Loan commitment (*2,4)	797,172,500	797,172,500
	₩ 6,990,185,949	₩ 5,239,473,169
Duplicate commitment amount (*3)	72,885,000	72,885,000
	₩ 6,937,000,949	₩ 5,186,288,169

  

	December 31, 2017	
	Maximum limit	Balance
ABCP purchase commitment (*1,4)	₩ 400,000,000	₩ 400,000,000
Commitments for securities acceptance (*4)	216,800,000	216,800,000
Conditional loan commitment (*4)	9,400,000	9,400,000
Loans on limit (*4)	2,806,136,319	1,523,372,033
Loan commitment (*2,4)	1,392,693,500	1,392,693,500
	₩ 4,825,029,819	₩ 3,542,265,533
Duplicate commitment amount (*3)	(180,199,002)	(180,199,002)
	₩ 4,644,830,817	₩ 3,362,066,531

(\*1) The Group purchased residual commercial papers that are issued but not sold through liquidity-providing commitments. Liquidity-providing commitments can be exercised when the credit ratings of underlying assets of commercial papers and financial institutions are not below the required level.

(\*2) The amount is the sum of the contractual amounts of secured loans executed by the Group according to mortgage loan commitments as of December 31, 2017 and 2016 and mortgage loan commitment between consolidated entities is excluded.

(\*3) The amount represents two or more commitments being provided to the same counterparty.

(\*4) As of December 31, 2017, the details of the consolidated subsidiaries are as follows:

Details of the Group's agreements as of December 31, 2018 are as follows (Korean won in thousands):

	Opponent	December 31, 2018	
		Maximum limit	Balance
ABCP purchase commitment	Sinchon Best 1 <sup>ST</sup> , Inc. Sinchon Best 2 <sup>ND</sup> , Inc. Sinchon Best 4 <sup>TH</sup> , Inc.	₩ 130,000,000	₩ 130,000,000
	Cheongra A Best Inc.	120,000,000	120,000,000
	Yeongjong Best Inc.	57,000,000	57,000,000
	Tetra HDP 1ST Co., Ltd. Co., Ltd.	28,300,000	28,300,000
	CS Pyeongtaek 1st, Inc.	80,000,000	80,000,000
	SLT Dalseo	12,500,000	12,500,000
		₩ 427,800,000	₩ 427,800,000



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**41. Guarantees and commitments (cont'd)**

	Opponent	December 31, 2018	
		Maximum limit	Balance
Conditional commitments for securities acceptance	Mastern investment management	₩ 115,000,000	₩ 115,000,000
	LG innotek	26,300,000	26,300,000
	hana financial investment	50,000,000	50,000,000
		₩ 191,300,000	₩ 191,300,000
Loans on limit	Garam DNC, Co., Ltd.	144,000,000	93,400,000
	Songdo DNC, Co., Ltd.	120,000,000	103,000,000
	SSG holdings, Co., Ltd.	111,100,000	85,600,000
	Songdo American Town	95,000,000	57,938
	SMC PFV Co.,Ltd	93,000,000	85,000,000
	GIDC	85,000,000	85,000,000
	Gwangmyeong 14th Rd. Housing redevelopment maintenance business Union	83,563,252	83,563,252
	DK project 4th, Co., Ltd.	81,240,000	80,760,000
	JSPARTNERS.Co.,Ltd	77,135,000	34,118,667
	Sinbi investment development Coporation	75,040,000	61,060,000
	Sinseo AMC Co.,Ltd	75,000,000	75,000,000
	Haengbokhan City	74,700,000	67,000,000
	Deoksugung PFV Co.,Ltd	69,600,000	63,300,000
	Songgwang IND Co.,Ltd	67,500,000	67,500,000
	Ferraz Realty Co.,Ltd	67,200,000	59,800,000
	Imun 3area reconstruction association	65,152,388	40,424,618
	Yeokchon 1 reconstruction association	64,443,556	46,423,956
	Dream Fourth D&C Co.,Ltd	62,800,000	53,050,000
	Penta D&C Co.,Ltd	60,000,000	45,000,000
	Bosung Co.,Ltd	57,100,000	57,100,000
	Chungna City Development	57,000,000	53,000,000
	M the Hill 1st Co.,Ltd	55,100,000	55,100,000
	SGDC	55,000,000	36,600,000
	Uram Developmnet Co.,Ltd	55,000,000	35,800,000
	Raum PFV Co.,Ltd	52,330,000	19,530,000
	Shinsegae Industrial Inc.	52,300,000	44,600,000
	GH Global Co.,Ltd	51,100,000	48,900,000
	Jangwon Co.,Ltd	50,600,000	49,400,000
	Gold Industry Co.,Ltd	50,500,000	37,713,636
MSA	50,000,000	26,375,000	
KMJ D&C Co.,Ltd	50,000,000	50,000,000	

41. Guarantees and commitments (cont'd)

	Opponent	December 31, 2018	
		Maximum limit	Balance
Loans on limit	Baster Co.,Ltd.	₩ 49,100,000	₩ 31,350,000
	INS Partners Co.,Ltd.	48,400,000	44,967,000
	Namhyun Construction Co.,Ltd.	47,700,000	36,890,000
	DS Partners Co.,Ltd.	47,500,000	47,500,000
	Isaac Developer	46,800,000	13,050,000
	C&C Investments	46,670,000	44,450,000
	Chungdam Penthouse PFV	46,171,716	36,930,542
	LB Professional Private Real Estate Investment Trust 6th	45,900,000	26,500,000
	Mirae Industrial Development Co.,Ltd	45,000,000	29,200,000
	SW D&C	44,600,000	13,800,000
	MK Yeonsan 1st Co.,Ltd	42,275,000	33,585,000
	MK Yeonsan 2nd Co.,Ltd	42,275,000	33,585,000
	Hanyang development	42,200,000	34,740,200
	THE PJC	42,000,000	5,017,791
	Gasan E&C	40,900,000	40,900,000
	Gyesu Beombak Reconstruction Association	39,873,839	30,548,473
	Saebit E&C Co.,Ltd	39,500,000	28,900,000
	Premium Wonheecastle Co., Ltd.	39,250,000	3,050,000
	Daegu Dongsincheon Reconstruction Association	38,490,455	38,490,455
	MKB Developer	38,400,000	18,900,000
	MAM Co.,Ltd	38,400,000	2,800,000
	Dain Industrial Development	37,000,000	14,900,000
	Dalseogu Reconstruction Association	36,163,679	32,732,598
	Seho Development	36,000,000	1,840,000
	We First	35,900,000	21,101,921
	Mokdong PFV	35,200,000	3,472,237
	We Are Master	34,500,000	20,000,000
	Parako Investment Develop. Co. Cheongdo	34,300,000	33,100,000
	Industrial Development	34,300,000	6,553,000
	BG Development	34,100,000	14,300,000
	Hankooksandan Development Co., Ltd.	34,100,000	32,800,000
	Biz Fore Gasan	34,000,000	19,400,000
	Persephone Company Pty Limited	28,256,865	17,219,027
	DB US Private Loan Investment Private Investment Trust 1st	33,184,200	27,759,825
	Sinam5dong Dongja 02 Area Reconstruction Association	32,348,555	32,348,555
	SDIR Co., Ltd.	31,700,000	1,000,000
	Jedeco	31,000,000	14,500,000

41. Guarantees and commitments (cont'd)

	Opponent	December 31, 2018	
		Maximum limit	Balance
Loans on limit	Gyeongju Yonggang PFV	₩ 30,000,000	₩ 8,800,000
	Best one Co.,Ltd	30,000,000	25,959,800
	SNK Corporation	30,000,000	23,280,000
	Jinwi3 Industrial Park	30,000,000	2,700,000
	Yul Kok Co.,Ltd	29,705,000	15,503,319
	Wondang 4area Reconstruction Association	29,248,000	28,203,500
	W City	29,000,000	25,200,000
	H&A Co.,Ltd	28,910,000	22,090,000
	Youngmu Parade	28,800,000	22,400,000
	Ilosam City Development	28,667,000	13,064,000
	Eureka	28,500,000	12,000,000
	Em Tower	27,700,000	17,600,000
	Sunjae	27,600,000	19,122,162
	Yido Co.,Ltd.	27,500,000	15,000,000
	Himchan Construction Co.,Ltd.	27,425,000	15,525,000
	Dohyun D&C, HJ Construction Co.,Ltd YJD, Jeju City, JS D&C Co.,Ltd DIO D&C Co.,Ltd	26,800,000	26,800,000
	Kumbo Co.,Ltd.	26,100,000	20,470,000
	Pyeongli 3 Dong Reconstruction Association	25,097,250	25,097,250
	Inha Univ Subway Station Development Project Corporation	25,000,000	18,440,000
	Jeasher Co.,Ltd.	25,000,000	10,400,000
	Urinara	24,862,000	10,162,000
	Myosangmyung-dong Development Limited	24,330,000	12,430,000
	Mastern Professional Private Real Estate Investment Trust 40th	24,056,000	14,563,000
	Noble Hills Co.,Ltd.	23,750,000	14,350,000
	Kun Woo Co.,Ltd.	23,600,000	21,600,000
	Hangang JongHab GunYoung	23,100,000	17,890,000
	The Kingstone 1st	22,800,000	20,150,000
	The Kingstone 2nd	22,800,000	20,150,000
	Merdian Co.,Ltd.	22,000,000	22,000,000
	Hanaro GNC Co.,Ltd.	21,700,000	14,900,000
	Prime Construction Co.,Ltd.	21,300,000	14,050,000
	RSDI Co.,Ltd.	21,000,000	12,000,000
	Spteco	21,000,000	5,500,000
	Moh	20,900,000	15,422,000
	Duam Industrial	20,624,680	1,300,040
	Gonto Partners Co.,Ltd.	20,200,000	12,929,000
	JLK Holdings Ltd	20,174,000	11,159,000
	Kaon-Bit Co.,Ltd.	20,000,000	9,500,000
	KnB Co.,Ltd.	20,000,000	1,800,000
	Kaboat Co.,Ltd.	20,000,000	18,000,000

41. Guarantees and commitments (cont'd)

	Opponent	December 31, 2018	
		Maximum limit	Balance
Loans on limit	Dohyun D&C	₩ 20,000,000	₩ 19,400,000
	Korea Smart Kyoyookkwanli Co.,Ltd.	19,950,000	19,950,000
	Submit Cross Co.,Ltd.	19,900,000	17,200,000
	MS JinjeobBupyeong, Co., Ltd.	19,700,000	19,700,000
	Choryang 1~3 Area Association	19,671,014	19,671,014
	TS Development Co.,Ltd.	19,300,000	18,600,000
	Hs develop	19,200,000	12,509,000
	MS Partners Co.,Ltd.	19,100,000	15,920,000
	Park Keun Bo (Individual Business)	19,000,000	1,000,000
	Hansan management	18,510,000	18,510,000
	Dukwon	18,500,000	3,780,000
	Bora con.,Ltd	18,206,000	6,452,250
	Daebong Central Park 2 <sup>ND</sup> Association	18,100,000	6,360,000
	GS Alt Plus	18,000,000	4,700,000
	Seo Won GaeBal Co.,Ltd.	17,800,000	9,563,000
	Daebong Central Park 1 <sup>ST</sup> Association	17,700,000	7,210,000
	Smart Square, Neo 9 <sup>th</sup>	17,400,000	17,400,000
	Urban Light	17,000,000	5,000,000
	LMC Construction Co.,Ltd.	16,500,000	13,100,000
	Mastern No.17 Myeongdong PFV Co., Ltd.	16,400,000	3,500,000
	Chungcheon Hakgok City Developmnet	16,200,000	13,800,000
	Damo	16,000,000	6,100,000
	SJ Holdings	16,000,000	14,300,000
	IM Prime Co.,Ltd.	15,500,000	9,733,000
	IGIS Professional Private Real Estate Investment Trust 149	15,300,000	5,400,000
	Kiwoom D&C Co.,Ltd.	15,000,000	10,000,000
	Bil Tech Co.,Ltd.	15,000,000	15,000,000
	JS Partners	15,000,000	8,087,500
	LK Housing Co.,Ltd.	15,000,000	4,200,000
	CM 101	15,000,000	2,546,000
	Doan City. Co.,Ltd.	15,000,000	3,840,000
	Sewon Co.,Ltd.	15,000,000	7,300,000
	Golden DMC	15,000,000	1,134,000
	Seungu VF	15,000,000	3,950,000
	LK Housing	15,000,000	4,200,000
	Biz Fore Co.,Ltd..	14,500,000	2,070,000
	Dream Land 2 <sup>nd</sup>	14,300,000	1,700,000
	Yeonan Construction Industry	14,000,000	2,700,000
	SungHee D&C	13,500,000	8,500,000
	H2d&I Co.,Ltd.	12,700,000	7,000,000

41. Guarantees and commitments (cont'd)

	Opponent	December 31, 2018	
		Maximum limit	Balance
Loans on limit	Pioneer Co.,Ltd.	₩ 12,500,000	₩ 12,500,000
	Ino Build Co.,Ltd.	11,775,000	10,000,000
	Gyeongju Yonggang PFV	11,600,000	11,600,000
	Gongpyung PFV Co.,Ltd.	11,150,000	10,010,000
	Rich Korea Co.,Ltd.	11,000,000	11,000,000
	J. Co.,Ltd.	10,800,000	8,307,000
	J. Co.,Ltd.	10,000,000	5,680,000
	BRSB	10,000,000	10,000,000
	Hana Alternative Investement Special Situation Private Investment 30-2	10,000,000	10,000,000
	MNS Prime Co.,Ltd.	10,000,000	600,000
	Hanaro Co.,Ltd.	10,000,000	1,000,000
	YM Corporation	10,000,000	10,000,000
	JSK 2nd Co.,Ltd.	10,000,000	8,235,294
	Deokchun 2-1 Area Reconstruction Association	9,608,000	3,542,849
	Mirae Songdo Project Financial Vehicle	9,530,000	9,530,000
	SE D&C Co.,Ltd.	8,500,000	5,500,000
	Shin Heung Development	8,200,000	8,200,000
	Mastern 26 <sup>th</sup> Hopangyo PFV Co.,Ltd.	8,200,000	8,200,000
	Haejin Asset Loan	8,000,000	4,300,000
	Misate Stea 1st	7,600,000	220,000
	Misate Stea 2nd	7,600,000	220,000
	Instar D&C	6,500,000	2,300,000
	Goyang Janghang MBN Holdings Daeto 2nd Yaeum(Ggaebatgol) Regional Housing Association	6,300,000	6,300,000
	Suseo Daeto Development	5,500,000	5,500,000
	Sambu Development	5,200,000	4,300,000
	Goyang Janghang MBN Holdings Daeto 1st Limited	4,700,000	4,700,000
	SYD&D Co.,Ltd.	4,200,000	4,200,000
	Rudens 21 5th, Rudens21 6th	4,000,000	4,000,000
	Wibeseuteupyengdong 1 <sup>st</sup>	4,000,000	4,000,000
	Shin Myung Construction	3,471,000	3,471,000
	Apple D&C	2,600,000	2,600,000
	Wealth Advisors	2,340,000	2,340,000
	Tiger D&C	2,300,000	2,300,000
	Tiger D&C	2,160,000	2,160,000
	Hanaro Co.,Ltd. Sunyangdd Co.,Ltd.	2,160,000	2,160,000
	Mastern No.19 Nonhyeon PFV	2,000,000	2,000,000
	Kyesan International Corp	1,500,000	1,500,000
	MNS Prime Co.,Ltd.	1,000,000	1,000,000
	MNS Prime Co.,Ltd.	800,000	800,000
	Rich Person Thinking	480,000	480,000
	Genesis North America 1ST Investment Limited Partnership	350,000	350,000
		₩ 5,573,913,449	₩ 3,823,200,669

**41. Guarantees and commitments (cont'd)**

		December 31, 2018	
		Maximum limit	Balance
Loan	Opponent		
commitment etc.	LCT PFV	₩ 141,350,000	₩ 141,350,000
	MSA	140,000,000	140,000,000
	Jinseong Housing	135,000,000	135,000,000
	Pohang T&I Co.,Ltd.	110,000,000	110,000,000
	Seyoung KNI	88,000,000	88,000,000
	Gyeongju Yonggang PFV	76,282,500	76,282,500
	MKH 1ST	37,700,000	37,700,000
	Damo	24,100,000	24,100,000
	CM 101	22,300,000	22,300,000
	Seho Developmnet	11,640,000	11,640,000
	MR101 CO., LTD.	8,800,000	8,800,000
	Structured	2,000,000	2,000,000
		<u>₩ 797,172,500</u>	<u>₩ 797,172,500</u>
		<u>₩ 6,990,185,949</u>	<u>₩ 5,239,473,169</u>

The Group's securities received as deposits held on behalf of clients as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018	December 31, 2017
Securities received as deposit:		
Consigner	₩ 16,603,404,986	₩ 17,705,120,398
Savers	3,203,087	4,163,214
Beneficiary	5,194,096,559	4,774,072,777
	<u>₩ 21,800,704,632</u>	<u>₩ 22,483,356,389</u>
Securities loaned:		
Stock	₩ 315,946,537	₩ 47,745,909
Securities borrowed:		
Stock	498,777,347	86,137,484
Government & local bonds	972,885,324	562,209,983
	<u>₩ 1,471,662,671</u>	<u>₩ 648,347,467</u>
Written-off loan	₩ 120,852,474	₩ 110,840,628

**42. Related party disclosures**

Significant related parties for the year ended December 31, 2018 are as follows.

	Company
Parent company	Meritz Financial Group Inc.
Associates	Global one Private IPO Investment Trust #1 (*1)
	MPLUS Private Real Estate Investment Trust #4 (*1)
	Mountain Pureun Private Investment Trust (*1)
	Meritz Korea Private Investment Trust 1st (*1)
	Meritz Korea Private Investment Trust 2nd (*1)
	Meritz Korea Private Investment Trust 3rd (*1)
	Korea Asset Classic Private Investment Trust 2nd (*1)
	Kiwoom Milestone Europe Professional Private Real Estate InvestmentTrust4 (*1)

**42. Related party disclosures (cont'd)**

	Company
Associates	Bestars Samo Property No.8 Investment Inc. (*1)
	Platform Partners active mezzanine private equity investment trust No.2 (*1)
	Airplane fund 5 (*1)
	Airplane fund 6 (*1)
	High Yield Plus Investment Trust 3 <sup>rd</sup> (*1)
	High Yield Plus Investment Trust 4 <sup>th</sup> (*1)
	East Spring High Yield 2nd (*1)
	Hana Special Situation Professional Private Real Estate Investment Trust 30 <sup>th</sup> (*1)
	Meritz Professional Private Real Estate Investment Trust 8 <sup>th</sup> (*1)
	Capstone Professional Private Real Estate Investment Trust 8 <sup>th</sup> the first class(*1)
	Meritz Professional Private Real Estate Investment Trust 7 <sup>th</sup> (*1)
	Acuon Capital Co., Ltd. (*2)
	Asiageuroseuje1hosamo Investment Limited Partnership
	Yuamkopain wood Enterprise Financial Anjeongsomo Investment Limited PA
Other related parties (*3)	Meritz Fire & Marine Insurance Co., Ltd.
	Meritz Asset Management Co., Ltd.
	Meritz Financial Information Service Co., Ltd.
	Meritz Business Service Co., Ltd.
	Meritz Real Estate Asset Management Co., Ltd.
	Meritz DM Investment Trust on Special Asset 1st
	Mertiz Vietnam Security Investment Trust
	PT.Mertiz Korindo Insurance
	Meritz Private Offering Property 6 <sup>th</sup>
	Meritz Korea smallcap Securities Investment trusts CI
	Meritz Korea Investment Trust on Bond
	Hyundai High-Yield Private Trust 11 <sup>th</sup>
	Meritz Korea smallcap Securities Investment trusts
	Meritz Global Healthcare High-Yield Trust on Securities 1 <sup>st</sup> (CI)
	Meritz Korea Private Investment Trust 1st
	Meritz Korea Private Investment Trust 2nd
	Meritz Korea Private Investment Trust 3rd
	Meritz Asia Frontier Private Investment
	Meritz China Security Investment CI
	Meritz China Security Investment C2
	Meritz Korea Ingagement Investment C
	Meritz Global Healthcare Investment Trust on Securities 1st (C2)
	HR Davinch Private Investment Trust 1st
	Fides Jump-up Private Investment Trust 1st
	Suntree Private Investment Trust 1st
	JS Private Investment Trust 1st
	Consus High-Yield Separate Taxation Private Investment Trust on Securities 1st
	Tiger 0212 Private Investment Trust 1st
	Trinity Unicorn Private Investment Trust 1st
	Platform Partners Private Investment Trust 1st



**42. Related party disclosures (cont'd)**

	Company
Other related parties (*3)	Yuriechi Smart Private Investment Trust 1st
	Kclavis Private Investment Trust 2nd
	Korea Asset Classic Private Investment Trust 2nd
	Vision Private Investment Trust 1st
	Smart Seongbok 1st
	Smart Seongbok 2nd
	MJJ 1st
	MJJ 2nd
	M Singok 1st
	MKH 1st
	Msquare Shihung 1st Co., Ltd.

(\*1) Classified as a joint venture because the important decisions of the entities are made with the unanimous consent of participants

(\*2) As a subsidiary of Meritz Financial Group Co., Ltd., it has a related party relationship with the consolidated subsidiary.

Significant transactions with related parties for the years ended December 31, 2018 and 2017 are summarized as follows (Korean won in thousands):

	Company	Year ended December 31, 2018		Year ended December 31, 2017	
		Income	Expense	Income	Expense
Parent company	Meritz Financial Group	₩ 1,175	₩ 14,313,197	₩ 4,443	₩ 13,289,572
Others	Meritz Fire & Marine insurance Co., Ltd.	18,157,837	27,420,223	1,800,262	15,227,965
	Meritz Asset Management	-	30,639	-	41,149
	Meritz Business Service Co., Ltd.	-	1,492,439	-	1,430,670
	Meritz Financial Information Service Co., Ltd.(before Ritz Partners)	-	10,338	-	51,784
	Meritz Real Estate Asset Management Co., Ltd.	-	-	55,440	-
	Msquare Shihung 1st Co., Ltd.	-	-	826,102	-
		<u>₩ 18,159,012</u>	<u>₩ 43,266,836</u>	<u>₩ 2,686,247</u>	<u>₩ 30,041,140</u>

Outstanding balances with related parties as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Company	Year ended December 31, 2018		Year ended December 31, 2017	
		Assets	Liabilities	Assets	Liabilities
Parent company	Meritz Financial Group	₩ 7,269	₩ 38,498,014	₩ 21,964	₩ 61,737,158
Others	Meritz Fire & Marine insurance Co., Ltd.	664,242	143,482,709	663,129	158,008,093
	Meritz Business Service Co., Ltd.	-	136,261	-	1,439,077

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Notes to the consolidated financial statements**  
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**42. Related party disclosures (cont'd)**

Company	Year ended December 31, 2018		Year ended December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Others				
Meritz Financial Information Service Co., Ltd.(before Ritz Partners)	-	-	-	1,509,690
Globalone Private IPO Investment Trust #1	110,624	-	293,419	-
Acuon Capital	6,273,385	-	4,873,151	-
Hana Special Situation Professional Private Real Estate Investment Trust 30th	-	-	41,091	-
	<u>₩ 7,055,520</u>	<u>₩ 182,116,984</u>	<u>₩ 5,892,754</u>	<u>₩ 222,694,018</u>

The balance of the agreements with the related parties as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Commitment for lonas on limit	₩ 95,323,000	₩ 7,000,000
Mortgage loan commitment	₩ 37,700,000	₩ 131,200,000
	<u>₩ 133,023,000</u>	<u>₩ 138,200,000</u>

Details of compensation paid to key management personnel are shown below. The key management personnel is composed of registered directors and non-registered directors who have the authority and responsibilities of corporate activities (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Short-term salary	₩ 36,209,464	₩ 35,405,624
Severance payment	₩ 1,423,392	₩ 1,656,546
	<u>₩ 37,632,856</u>	<u>₩ 37,062,170</u>

**43. Statements of cash flows**

Cash and cash equivalents in the statements of cash flows as of December 31, 2018 and 2017 are summarized as follows (Korean won in thousands):

	December 31, 2018	December 31, 2017
Cash	₩ -	₩ -
Cash equivalents	₩ 981,828,847	₩ 1,026,348,909
	<u>₩ 981,828,847</u>	<u>₩ 1,026,348,909</u>

Significant non-cash transactions for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Gain (loss) on valuation of financial assets measure at FVOCI	₩ 4,426,448	₩ -
Gain (loss) on valuation of available-for-sale financial assets	-	₩ 5,388,270
Actuarial valuation of the net defined benefit liabilities	(766,009)	₩ 516,245

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Notes to the consolidated financial statements**  
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**43. Statements of cash flows (cont'd)**

	Year ended December 31, 2018	Year ended December 31, 2017
Present value discount of other assets	₩ 98,157	₩ 297,497
Transferred between gain(loss) on valuation of financial liabilities measured at FVTPL and other comprehensive income	158,089	-
Transferred between gain(loss) on valuation of financial liabilities measure at FVTPL and retained earnings	29,954	-
Present value discount of withholdings	3,234,742	3,437,682
Initial recognition of provisions for restoration costs	38,013	46,152
Transferred between advanced payments and intangible assets	-	1,019,103
Transferred between available-for-sale financial assets and loans	-	344,967
Transferred between RCPS and common stock	-	8,499,591
Transferred between provision and allowance for possible loan losses	-	-
Transferr to the investments in associates due to the acquisition of significant control	-	700,000
Transferred between tangible assets and investment property	(357,269)	-
Conversion as stocks of exchange bonds	-	1,285,211
Transferred to the investments in associates from redeemable convertible preferred stocks	-	66,397,511
Bad debts written off	22,776,440	14,264,824
Increase in redeemable equity of non-controlling shareholders	-	71,315
Increase in non-controlling interests	5,591,684	4,219,674
Increase in loss on foreign currency transactions	99,852	(718,852)
Increase(decrease) in equity method capital fluctuation	-	(99,852)
Separation of conversion rights from convertible redeemable preferred stock	-	(151,962)
Inclusion in deductible expenses of loss on merger	-	17,710,181
Removed internal transactions of auto lease	(581,295)	1,892,860
Acquisition of subsidiary shares by comprehensive stock exchange	-	450,180,482

Net cash flows from the acquisition of subsidiaries for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Total assets	₩ -	₩ 3,929,880,426
Total liabilities	-	(3,448,062,196)
Total purchase price paid in cash	-	-
Deduction: Cash from subsidiaries acquired	-	(504,126,800)
Net cash flow	₩ -	₩ (504,126,800)

Net cash flows from the disposal of subsidiaries for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018	Year ended December 31, 2017
Proceed from disposal	₩ 44,019,200	₩ 11,962,958
Cash and cash equivalent in subsidiaries	(16,971,550)	(79,540,844)
Net cash flow	₩ 27,047,650	₩ (67,577,886)

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2018 and 2017**

**43. Statements of cash flows (cont'd)**

Changes in liabilities arising from financing activities for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	January 1, 2018	Cash flow	Change in scope of consolidation	Non-cash flow change		December 31, 2018
				Changes of exchange rate	Amortization of discount on debentures	
Call money	₩ 90,000,000	₩ 20,000,000	₩ -	₩ -	₩ -	₩ 110,000,000
Borrowing from KSFC	600,000,000	294,441,964	-	-	-	894,441,964
Repurchase agreements sold	6,427,790,272	411,973,396	-	(2,723,835)	-	6,837,039,833
Other borrowings	1,826,709,859	2,422,774,307	(814,042,254)	-	-	3,435,441,912
Asset backed short-term bonds	1,121,400,000	795,230,000	(14,300,000)	-	-	1,902,330,000
Debentures	3,610,607,066	1,457,548,174	-	-	5,410,394	5,073,565,634
	₩ 13,676,507,197	₩ 5,401,967,841	₩ (828,342,254)	₩ (2,723,835)	₩ 5,410,394	₩ 18,252,819,343

**44. Trust accounts**

The Group engages in the investment trust services and separately maintains the books of accounts and financial statements in connection with the trust operations (the trust accounts) from those of the Group accounts in accordance with the *Financial Investment Services and Capital Markets Act*.

Details of the financial information in relation to trust accounts as of December 31, 2018 are as follows (Korean won in thousands):

	Specific money trust	Property trust	Total
Cash and due from banks	₩ 986,963,833	₩ -	₩ 986,963,833
Negotiable instruments	163,944,900	1,065	163,945,965
Monetary claims	-	2,327,887,960	2,327,887,960
Other assets	4,911,025	-	4,911,025
	₩ 1,155,819,758	₩ 2,327,889,025	₩ 3,483,708,783
Other liabilities	6,524,599	-	6,524,599
Trust and the original	1,149,295,159	2,327,889,025	3,477,184,184
	₩ 1,155,819,758	₩ 2,327,889,025	₩ 3,483,708,783

Details of transactions with trust accounts as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018	December 31, 2017
Fees on trust accounts	₩ 3,132,649	₩ 3,378,711
Accrued fees on trust accounts	199,838	1,337,994

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2018 and 2017**

**45. Classification of financial assets and liabilities**

Classification of financial assets and liabilities as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018				
	Financial assets or liabilities measured at FVTPL	Financial assets or liabilities designated at FVTPL	Financial assets or liabilities measured at FVOCI	Mesured at amortized cost	Total
Financial assets:					
Cash and due from banks	₩ -	₩ -	₩ -	₩ 1,944,296,436	₩ 1,944,296,436
Financial assets measured at FVTPL	12,297,860,900	-	-	-	12,297,860,900
Derivative assets	402,568,918	-	-	-	402,568,918
Financial assets Measured at FVOCI	-	-	810,410,340	-	810,410,340
Loans	-	-	-	12,653,434,326	12,653,434,326
CMA	4,995,324	-	-	-	4,995,324
Lease	-	-	-	984,908,242	984,908,242
Other financial assets	-	-	-	814,379,895	814,379,895
	<u>₩ 12,705,425,142</u>	<u>₩ -</u>	<u>₩ 810,410,340</u>	<u>₩ 16,397,018,899</u>	<u>₩ 29,912,854,381</u>
Financial liabilities:					
Deposits	-	-	-	2,424,276,424	2,424,276,424
Financial liabilities measured at FVTPL	1,787,217,221	-	-	-	1,787,217,221
Derivative liabilities	614,625,181	₩ -	-	-	614,625,181
Financial liabilities designated at FVTPL	-	3,440,116,590	-	-	3,440,116,590
Borrowings	-	-	-	11,276,923,711	11,276,923,711
Bonds	-	-	-	6,975,895,633	6,975,895,633
Other financial liabilities	-	-	-	855,902,943	855,902,943
	<u>₩ 2,401,842,402</u>	<u>₩ 3,440,116,590</u>	<u>₩ -</u>	<u>₩ 21,532,998,711</u>	<u>₩ 27,374,957,703</u>
	December 31, 2017				
	Financial assets or liabilities held-for-trading	Financial assets or liabilities designated at fair value through profit or loss	Available-for-sale financial assets or liabilities	Mesured at amortized cost	Total
Financial assets:					
Cash and due from banks	₩ -	₩ -	₩ -	₩ 1,403,474,941	₩ 1,403,474,941
Financial assets held-for-trading	9,287,574,095	-	-	-	9,287,574,095
Derivative assets	91,882,359	-	-	-	91,882,359
Financial assets designated at fair value through profit or loss	-	540,424,656	-	-	540,424,656
Available-for-sale financial assets	-	-	1,251,665,821	-	1,251,665,821
Loans	-	-	-	8,523,643,032	8,523,643,032
CMA	-	-	-	4,994,458	4,994,458
Lease	-	-	-	983,732,540	983,732,540
Other financial assets	-	-	-	615,739,563	615,739,563
	<u>₩ 9,379,456,454</u>	<u>₩ 540,424,656</u>	<u>₩ 1,251,665,821</u>	<u>₩ 11,531,584,534</u>	<u>₩ 22,703,131,465</u>
Financial liabilities:					
Deposits	-	-	-	3,231,933,356	3,231,933,356
Financial liabilities held-for-trading	1,790,814,840	-	-	-	1,790,814,840
Derivative liabilities	62,340,613	-	-	-	62,340,613
Financial liabilities designated at fair value through profit or loss	-	447,145,121	-	-	447,145,121
Borrowings	-	-	-	8,944,500,131	8,944,500,131
Bonds	-	-	-	4,732,007,066	4,732,007,066
Other financial liabilities	-	-	-	702,253,843	702,253,843
	<u>₩ 1,853,155,453</u>	<u>₩ 447,145,121</u>	<u>₩ -</u>	<u>₩ 17,610,694,396</u>	<u>₩ 19,910,994,970</u>

#### **46. Fair value of financial assets and liabilities**

Fair value means a price that a market participant receives by selling an asset or pays by transferring a liability in an ordinary transaction on the date of transaction. Fair value measurement estimates the price in the ordinary transaction between the market participants, who sell the asset and transfer the liability, at an active market on the date of transaction. The Group calculates the fair values of assets/liabilities by making the best use of market values and making the least use of inputs that are not based on the observable market data.

Fair values classification:

The Group classifies fair value measurements of financial assets or liabilities by reference to the source of inputs used to derive the fair values. The classification is as follows:

	<u>Details</u>
(Level 1)	In case assets or liabilities are measured by quoted prices (unadjusted) in active markets, fair value of the assets or liabilities is classified as Level 1. The assets of liabilities classified as Level 1 include stock transacted in KRX, ETF, listed option, stock warrant, stock transacted in foreign, etc.
(Level 2)	In case assets or liabilities are measured by valuation techniques and all significant inputs are based on the observable market data, fair value of the assets or liabilities is classified as Level 2. The assets of liabilities classified as Level 2 include bond, interest rate swap, foreign exchange forward, etc.
(Level 3)	In case assets or liabilities are measured by valuation techniques and all significant inputs are based on the no observable market data, fair value of the assets or liabilities is classified as Level 3. The assets of liabilities classified as Level 3 include unlisted stock, option related over-the-counter securities, DLS, separate deposit from investors, etc.

The Group calculates the fair values of assets/liabilities by using an internal valuation model or receives fair market values assessed by independent external appraisers.

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**46. Fair value of financial assets and liabilities (cont'd)**

Details of the carrying amount and fair value of financial instruments as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018			
	Fair value			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at FVTPL				
Equity securities	₩ 230,762,767	₩ -	₩ 50,902,804	₩ 281,665,571
Debt securities	-	10,000,621,697		10,000,621,697
Collective investment securities	715,306,613	-	59,989,555	775,296,168
Others	-	-	357,647,893	357,647,893
Derivative assets	-	141,881,564	740,748,007	882,629,571
Financial assets measured at FVOCI	273,895,179	97,665,748	31,007,991	402,568,918
Available-for-sale financial assets:				
Equity securities	186,362	-	199,930,991	200,117,353
Debt securities	-	610,292,987	-	610,292,987
CMA	-	-	4,995,324	4,995,324
	<u>₩ 1,220,150,921</u>	<u>₩ 10,850,461,996</u>	<u>₩ 1,445,222,565</u>	<u>₩ 13,515,835,482</u>
Financial liabilities:				
Financial liabilities measured at FVTPL				
Equity securities	367,063,928	-	-	367,063,928
Debt securities	-	1,352,427,763	-	1,352,427,763
Others	67,725,531	-	-	67,725,531
Derivative liabilities	301,536,670	78,396,891	234,691,620	614,625,181
Financial liabilities designated at FVTPL	-	-	3,440,116,590	3,440,116,590
	<u>₩ 736,326,129</u>	<u>₩ 1,430,824,654</u>	<u>₩ 3,674,808,210</u>	<u>₩ 5,841,958,993</u>

(\*1) There was no transfer between level 1 and level 2 in 2018 and 2017. The Group recognizes a transfer at the end of the reporting period when an event or circumstance causing the transfer among fair value levels is incurred.

(\*2) The balance of financial instruments measured at costs since there was no quoted price of the same financial instrument in an active market or fair value was not reliably estimable, amounts to ₩28,188,123 thousand (excluding reserve of collective fund for default loss). Of the financial instruments measured at cost for the year ended December 31, 2018, ₩10,989,513 thousand of book value was derecognized, and ₩2,302,131 thousand was recognized as a gain or loss on disposal.



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**46. Fair value of financial assets and liabilities (cont'd)**

	December 31, 2017			
	Fair value			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets held-for-trading:				
Equity securities	₩ 445,532,501	₩ -	₩ -	₩ 445,532,501
Debt securities	-	8,535,157,127	-	8,535,157,127
Others	306,884,467	-	-	306,884,467
Derivative assets	25,915,660	52,963,012	13,003,687	91,882,359
Financial assets designated at fair value through profit or loss	-	167,700,063	372,724,592	540,424,655
Available-for-sale financial assets:				
Equity securities	2,687,840	-	243,363,534	246,051,374
Debt securities	-	879,985,684	-	879,985,684
Others	-	-	125,628,764	125,628,764
	<u>₩ 781,020,468</u>	<u>₩ 9,635,805,886</u>	<u>₩ 754,720,577</u>	<u>₩ 11,171,546,931</u>
Financial liabilities:				
Financial liabilities held-for-trading:				
Equity securities	282,745,373	-	-	282,745,373
Debt securities	-	1,493,232,766	-	1,493,232,766
Others	14,836,701	-	-	14,836,701
Derivative liabilities	2,639,732	39,308,366	20,392,515	62,340,613
Financial liabilities designated at fair value through profit or loss	-	-	447,145,121	447,145,121
	<u>₩ 300,221,806</u>	<u>₩ 1,532,541,132</u>	<u>₩ 467,537,636</u>	<u>₩ 2,300,300,574</u>

(\*1) There was no transfer between level 1 and level 2 in 2017 and 2016. The Group recognizes a transfer at the end of the reporting period when an event or circumstance causing the transfer among fair value levels is incurred.

(\*2) The balance of financial instruments measured at costs since there was no quoted price of the same financial instrument in an active market or fair value was not reliably estimable, amounts to ₩23,136,298 thousand (excluding reserve of collective fund for default loss). Of the financial instruments measured at cost for the year ended December 31, 2018, ₩26,149,423 thousand of book value was derecognized, and ₩1,908,457 thousand was recognized as a gain or loss on disposal.

**Meritz Securities Co., Ltd. and its subsidiaries**  
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**46. Fair value of financial assets and liabilities (cont'd)**

Details of inputs used in fair value, valuation technique, and measurement of fair value classified into level 2 among financial assets and liabilities, currently measured at fair value as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018	December 31, 2017	Valuation technique	Inputs
Financial assets:				
Financial assets measured at FVTPL				
Debt securities	₩ 10,000,621,697	₩ 8,535,157,127	DCF model	Discount rate, interest rate
Others	141,881,564	-	DCF model	Discount rate, interest rate
Derivative assets	97,665,749	52,963,012	DCF model, etc	Discount rate, exchange rate
Financial assets designated at FVTPL	-	167,700,063	DCF model, etc	Discount rate, interest rate
Financial assets measure at FVOCI				
Debt securities	610,292,987	-	DCF model, etc	Discount rate, interest rate
Available-for-sale financial assets:				
Debt securities	-	879,985,684	DCF model	Discount rate, interest rate
	<u>₩ 10,850,461,997</u>	<u>₩ 9,635,805,886</u>		
Financial liabilities:				
Financial liabilities measured at FVTPL				
Debt securities	1,352,427,763	1,493,232,766	DCF model	Discount rate, interest rate
Derivative liabilities	78,396,892	39,308,366	DCF model	Discount rate, exchange rate
	<u>₩ 1,430,824,655</u>	<u>₩ 1,532,541,132</u>		

Changes in the fair value of level 3 financial assets and liabilities for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018						December 31, 2018
	January 1, 2018	Profit/Loss	Other comprehensive income	Changes due to change of accounting standard	Purchase/issuance	Disposal/redemption	
Assets:							
Financial assets measure at FVTPL	-	17,126,693	-	777,742,929	14,695,035,053	(14,280,616,416)	1,209,288,259
Derivative assets	₩ 13,003,687	₩ 22,510,769	₩ -	₩ (8,832,543)	₩ 5,677,275	₩ (1,351,197)	₩ 31,007,991
Financial assets designated at FVTPL	372,724,592	-	-	(372,724,592)	-	-	-
Financial assets: Measured at FVOCI							
Equity instrument	243,363,534	-	3,670,406	(47,102,949)	-	-	199,930,991
Debt securities	-	-	-	-	200,000,000	(200,000,000)	-
Others	125,628,764	-	-	(125,628,764)	-	-	-
CMA	-	264	-	4,995,060	5,000,000	(5,000,000)	4,995,324
	<u>₩ 754,720,577</u>	<u>₩ 39,637,726</u>	<u>₩ 3,670,406</u>	<u>₩ 228,449,141</u>	<u>₩ 14,905,712,328</u>	<u>₩ (14,486,967,613)</u>	<u>₩ 1,445,222,565</u>
Liabilities:							
Derivative instruments	20,392,515	(101,173,587)	-	-	203,651,823	(90,526,305)	234,691,620
Financial liabilities designated at FVTPL	447,145,121	174,041,936	-	(586,826)	5,784,670,662	(2,617,070,431)	3,440,116,590
	<u>₩ 467,537,636</u>	<u>₩ 72,868,349</u>	<u>₩ -</u>	<u>₩ (586,826)</u>	<u>₩ 5,988,322,485</u>	<u>₩ (2,707,596,736)</u>	<u>₩ 3,674,808,210</u>

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**46. Fair value of financial assets and liabilities (cont'd)**

	Year ended December 31, 2017							
	January 1, 2017	Profit/Loss	Other comprehensive income	Transfer between levels (*1)	Increase due to business combination (*2)	Purchase/issuance	Disposal/redemption	December 31, 2017
<b>Assets:</b>								
Financial assets held-for-trading:								
Derivative instruments	₩ 286,880	₩ 1,465,699	₩	₩ -	₩	₩ 6,224,777	₩ (18,650,629)	₩ 130,887
Financial assets designated at fair value through profit or loss	280,580	5,432,568		-		11,470,325,681	(11,383,561,658)	372,245
Available-for-sale financial assets:								
Equity instrument	236,635	1,934,822	189	(3326)		46,061,838	(40,280,806)	243,353
Others	103,013	(468,151)	1,339	-	18,210,741	284,397,847	(291,247,124)	126,237
	₩ 644,397	₩ 4,164,939	₩ 1,528	₩ (3326)	₩ 18,210,741	₩ 11,807,010,143	₩ (11,733,740,217)	₩ 754,215
<b>Liabilities:</b>								
Financial liabilities held-for-trading								
Derivative instruments	123,886	(19,374,045)		-		437,555	(11,751,921)	20,855
Financial liabilities designated at fair value through profit or loss	654,285	(6,688,310)		-		925,979,223	(1,139,952,097)	447,452
	₩ 667,251	₩ (26,062,355)	₩	₩ -	₩	₩ 926,416,778	₩ (1,151,704,018)	₩ 467,307

(\*1) There was no transfer to level 3 in 2017. The amounts recognized are transfer from level 3 to level 1 as unlisted company became listed. The Group recognizes transfer between levels at the end of the reporting period when an event or circumstance causing the transfer between fair value levels is incurred.

(\*2) The increase is due to the inclusion of Meritz Capital Co., Ltd. into the Group's consolidation by the comprehensive share exchange in 2017.

Of the changes in the fair value of the financial assets that were measured at fair value and classified as level 3 in fair value hierarchy, current profits or losses in 2018 and 2017 were recognized as follows (Korean won in thousands):

	December 31, 2018		December 31, 2017	
	Profit and loss for the current term	Gain and loss on valuation	Profit and loss for the current term	Gain and loss on valuation
<b>Assets:</b>				
Financial assets measured at FVTPL				
	₩ 17,126,693	₩ (24,434,034)	₩ -	₩ -
Derivative instruments	22,510,769	22,166,161	1,465,699	3,533,189
Financial assets designated at FVTPL	-	-	5,432,568	1,227,515
Financial assets designated at FVOCI				
Equity instruments	-	-	1,934,822	(1,190,750)
Others	-	-	(4,668,150)	(6,297,613)
CMA	264	(4,676)		
	₩ 39,637,726	₩ (2,272,549)	₩ 4,164,939	₩ (2,727,659)
<b>Liabilities:</b>				
Derivative instruments				
	(101,173,587)	(101,484,502)	(19,374,045)	(18,848,049)
Financial liabilities designated at FVTPL	174,041,936	217,621,688	(6,688,310)	(918,747)
	₩ 72,868,349	₩ 116,137,186	₩ (26,062,355)	₩ (19,766,796)
	₩ 112,506,075	₩ 113,864,637	₩ (21,897,416)	₩ (22,494,455)

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**46. Fair value of financial assets and liabilities (cont'd)**

Details of fair value, valuation technique, and inputs used to develop those measurements classified into level 3 assets and liabilities disclosure but not measured at fair value as of December 31, 2018 are as follows (Korean won in thousands):

	December 31, 2018				
	Fair value	Valuation technique	Inputs	Significant unobservable inputs	Sensitivity of the input to fair value Range
Financial assets:					
Financial assets measured at FVTPL	₩ 1,209,288,259	FDM, Binomial model, Black Scholes model, Monte-Carlo Simulation Reduced Form Model	Risk free rate, dividend rate, discount rate, volatility, probability default	Recovery rate Volatility	Fair value increased due to the increase in recovery rate Fair value increased due to the increase in volatility
Derivative assets	31,007,991	Monte-Carlo Simulation Cox, Ross and Rubinstein Model	Risk free rate, dividend rate, discount rate, stock price	Volatility Correlation	Fair value increased or decreased due to the increase in volatility Fair value increased or decreased due to the increase in correlation coefficient
Financial assets designated at FVOCI	199,930,991	DCF, Past deal method, Cost method	-	Growth rate Discount rate	Fair value increased due to the increase in growth rate Fair value decreased due to the increase in discount rate
CMA	4,995,324	DCF	-	Discount rate	Fair value decreased due to the increase in discount rate
	<u>₩ 1,445,222,565</u>				
Financial liabilities:					
Derivative liabilities	234,691,620	Binomial model Monte-Carlo Simulation, Hull&White 1 factor	Risk free rate, dividend rate, discount rate, stock price	Volatility Correlation	Fair value increased or decreased due to the increase in volatility Fair value increased or decreased due to the increase in correlation coefficient
Financial liabilities designated at FVTPL	3,440,116,590	Monte-Carlo Simulation, Reduced form, Hull&White 1 factor Black-Scholes Model	Risk free rate, dividend rate discount rate, probability default	Recovery rate Volatility Correlation	Fair value increased due to the increase in recovery rate Fair value increased or decreased due to the increase in correlation coefficient Fair value increased or decreased due to the increased in correlation coefficient
	<u>₩ 3,674,808,210</u>				

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**46. Fair value of financial assets and liabilities (cont'd)**

Based on changes in fair values of financial assets according to changes in unobservable input variables by using statistics method, the sensitivity analysis of financial assets is conducted separately on favorable changes and unfavorable changes. If fair value is influenced by more than 2 input variables, the fair value is calculated on the basis of the most favorable or the most unfavorable amount. As of December 31, 2018, the result of sensitivity analysis according to changes in input variables by financial asset is as follows (Korean won in thousands):

	Computation effect of volatility	Favorable change	Unfavorable change
<b>Assets:</b>			
Financial assets measured at FVTPL	Adjustment of 10% in unobservable inputs (volatility, recovery rate)	₩ 2,264,531	₩ (1,705,934)
Derivative assets	Adjustment of 10% in unobservable inputs (volatility, recovery rate)	7,813,119	(10,318,746)
Financial assets designated at FVOCI	Adjustment 1% of growth rate, discount rate	8,028,339	(5,561,805)
		₩ 18,105,989	₩ (17,586,485)
<b>Liabilities:</b>			
Derivative instruments	Adjustment of 10% in unobservable inputs (volatility, recovery rate)	78,771,580	(68,525,259)
Financial liabilities designated at FVTPL	Adjustment of 10% in unobservable inputs (volatility, recovery rate)	79,195,931	(88,980,138)
		₩ 157,967,511	₩ (157,505,397)
		₩ 176,073,500	₩ (175,091,882)

The hierarchical fair values of the financial assets, which were not measured at fair value but of which the fair values were disclosed, in the statements of financial position as of December 31, 2018 and are as follows (Korean won in thousands):

	December 31, 2018				
	Book value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets:</b>					
Cash and due from banks (*)	₩ 1,944,296,436	₩ -	₩ 1,944,296,436	₩ -	₩ 1,944,296,436
Loans	12,653,434,326	-	-	12,710,566,379	12,710,566,379
Lease	984,908,242	-	-	966,502,496	966,502,496
Other financial assets (*)	814,379,895	-	-	814,379,895	814,379,895
	₩ 16,397,018,899	₩ -	₩ 1,944,296,436	₩ 14,491,448,770	₩ 16,435,745,206
<b>Financial liabilities:</b>					
Deposits (*)	₩ 2,424,276,424	₩ -	₩ 2,424,276,424	₩ -	₩ 2,424,276,424
Borrowings (*)	11,276,923,711	-	11,276,923,711	-	11,276,923,711
Bonds	6,975,895,633	-	6,999,419,321	-	6,999,419,321
Other financial liabilities (*)	855,902,943	-	-	855,902,943	855,902,943
	₩ 21,532,998,711	₩ -	₩ 20,700,619,456	₩ 855,902,943	₩ 21,556,522,399

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**46. Fair value of financial assets and liabilities (cont'd)**

	December 31, 2017				
	Book value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and due from banks (*)	₩ 1,403,474,941	₩ -	₩ 1,403,474,941	₩ -	₩ 1,403,474,941
Loans receivable	8,523,643,032	-	-	8,654,689,610	8,654,689,610
CMA (*)	4,994,458	-	-	4,994,458	4,994,458
Lease	983,732,540	-	-	1,016,205,319	1,016,205,319
Other financial assets (*)	615,739,563	-	-	615,739,563	615,739,563
	<u>₩ 11,531,584,534</u>	<u>₩ -</u>	<u>₩ 1,403,474,941</u>	<u>₩ 10,291,628,950</u>	<u>₩ 11,695,103,891</u>
Financial liabilities:					
Deposits (*)	₩ 3,231,933,356	₩ -	₩ 3,231,933,356	₩ -	₩ 3,231,933,356
Borrowings (*)	8,944,500,131	-	8,944,500,131	-	8,944,500,131
Bonds	4,732,007,066	-	4,741,556,014	-	4,741,556,014
Other financial liabilities (*)	702,253,843	-	-	702,253,843	702,253,843
	<u>₩ 17,610,694,396</u>	<u>₩ -</u>	<u>₩ 16,917,989,501</u>	<u>₩ 702,253,843</u>	<u>₩ 17,620,243,344</u>

(\*) Because book value was considered to be a reasonable approximation of fair value, book value was disclosed as fair value.

The following valuation methods and input variables were applied to the financial assets classified as level 2 of the financial assets, which were not measured at fair value but of which the fair values were disclosed, in the statements of financial position as of December 31, 2018 and 2017 (Korean won in thousands).

	December 31, 2018	December 31, 2017	Valuation method	Input variables
Financial liabilities:				
Debentures	₩ 6,999,419,321	₩ 4,741,556,014	DCF method	Discount rate

The following valuation methods, input variables and unobservable input were applied to the financial assets classified as level 3 of the financial assets, which were not measured at fair value but of which the fair values were disclosed, in the statements of financial position as of December 31, 2017 and 2016 (Korean won in thousands).

	December 31, 2018	December 31, 2017	Valuation method	Input variable	Unobservable input variable
Financial assets					
Loans	₩ 12,710,566,379	₩ 8,654,689,610	DCF method	Discount rate	Credit risk
Lease assets	966,502,496	1,016,205,319	DCF method	Discount rate	Credit risk
	<u>₩ 13,677,068,875</u>	<u>₩ 9,670,894,929</u>			

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**47. Offsetting of financial assets and liabilities**

Details of financial assets subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018					
	Gross amounts of recognized financial instruments	Gross amounts of recognized financial instruments set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position (*)		
				Enforceable master netting arrangement	Cash collateral received	Net amount
<b>Assets</b>						
Derivatives	₩ 403,942,666	₩ -	₩ 403,942,666	₩ (84,094,914)	₩ -	₩ 319,847,752
<b>Loans</b>						
Repurchase agreement	1,189,300,000	-	1,189,300,000	-	(1,189,300,000)	-
<b>Other assets</b>						
Receivable spot exchange	89,495,600	-	89,495,600	(89,446,100)	-	49,500
Difference of uncollected	12,140,709	(12,140,703)	6	-	-	6
Receivable from proprietary trading	486,378,209	(168,074,977)	318,303,232	-	-	318,303,232
Receivable from trading on consignment	494,403,663	(323,485,659)	170,918,004	-	-	170,918,004
	<u>₩ 2,675,660,847</u>	<u>₩ (503,701,339)</u>	<u>₩ 2,171,959,508</u>	<u>₩ (173,541,014)</u>	<u>₩ (1,189,300,000)</u>	<u>₩ 809,118,494</u>
<b>Liabilities:</b>						
Derivatives	₩ 713,659,826	₩ -	₩ 713,659,826	₩ (84,094,914)	₩ (191,393,090)	₩ 438,171,822
Securities sold	1,787,217,222	-	1,787,217,222	-	(1,787,217,222)	-
<b>Borrowings</b>						
Repurchase agreement	6,837,039,833	-	6,837,039,833	-	(6,837,039,833)	-
<b>Other liabilities</b>						
Payable spot exchange	89,503,500	-	89,503,500	(89,446,100)	-	57,400
Difference of unsettled	16,650,792	(12,140,703)	4,510,089	-	-	4,510,089
Accounts payable for proprietary trading	248,859,610	(168,074,977)	80,784,633	-	-	80,784,633
Accounts payable for trading on consignment	493,114,285	(323,485,659)	169,628,626	-	-	169,628,626
	<u>₩ 10,186,045,068</u>	<u>₩ (503,701,339)</u>	<u>₩ 9,682,343,729</u>	<u>₩ (173,541,014)</u>	<u>₩ (8,815,650,145)</u>	<u>₩ 693,152,570</u>
	December 31, 2017					
	Gross amounts of recognized financial instruments	Gross amounts of recognized financial instruments set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position (*)		
				Enforceable master netting arrangement	Cash collateral received	Net amount
<b>Assets:</b>						
Derivatives	₩ 91,784,059	₩ -	₩ 91,784,059	₩ (32,904,986)	₩ -	₩ 58,879,073
<b>Loans</b>						
Repurchase agreement	901,500,000	-	901,500,000	-	(901,500,000)	-
<b>Other assets</b>						
Receivable spot exchange	32,166,600	-	32,166,600	(32,154,800)	-	11,800
Difference of uncollected	23,664,728	(22,921,810)	742,918	-	-	742,918
Receivable from proprietary trading	483,359,042	(288,305,926)	195,053,116	-	-	195,053,116
Receivable from trading on consignment	727,168,799	(479,416,323)	247,752,476	-	-	247,752,476
	<u>₩ 2,259,643,228</u>	<u>₩ (790,644,059)</u>	<u>₩ 1,468,999,169</u>	<u>₩ (65,059,786)</u>	<u>₩ (901,500,000)</u>	<u>₩ 502,439,383</u>
<b>Liabilities:</b>						
Derivatives	₩ 61,551,915	₩ -	₩ 61,551,915	₩ (32,904,986)	₩ (2,003,461)	₩ 26,643,468
Securities sold	1,790,814,840	-	1,790,814,840	-	(1,790,814,840)	-
<b>Borrowings</b>						
Repurchase agreement	6,390,979,183	-	6,390,979,183	-	(6,390,979,183)	-
<b>Other liabilities</b>						
Payable spot exchange	32,175,200	-	32,175,200	(32,154,800)	-	20,400
Difference of unsettled	25,760,676	(22,921,810)	2,838,866	-	-	2,838,866
Accounts payable for proprietary trading	321,709,919	(288,305,926)	33,403,993	-	-	33,403,993
Accounts payable for trading on consignment	725,918,977	(479,416,323)	246,502,654	-	-	246,502,654
	<u>₩ 9,348,910,710</u>	<u>₩ (790,644,059)</u>	<u>₩ 8,558,266,651</u>	<u>₩ (65,059,786)</u>	<u>₩ (8,183,797,484)</u>	<u>₩ 309,409,381</u>

(\*) The rights to offset exist only in case of default and others. Accordingly, the amounts are not offset in the statement of financial position as they do not meet the criteria for offsetting.



#### 48. Deferred day 1 profit or loss

Changes in deferred day 1 profit or loss, for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

	Year ended December 31, 2018		Year ended December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Beginning	₩ (685,227)	₩ 909,859	₩ 1,899,177	₩ 402,892
Increase	(13,588,396)	78,385,395	1,609,586	916,985
Decrease	17,771,128	(53,689,199)	(4,193,989)	(410,018)
Ending	₩ 3,497,505	₩ 25,606,055	₩ (685,227)	₩ 909,859

#### 49. Risk management

The Group is exposed to credit risk, liquidity risk, market risk and operational risk of its financial instruments. Risk management is the basic activities to effectively use the Group's limited capital under the rapidly changing financial circumstances. The ultimate goal of risk management is to maximize the Group's shareholder value while minimizing the sudden fluctuation of its income through a proper balance between risks and returns.

The basic policies for managing risk are as follows:

- (i) Set the limits and comply with them for each risk, and strike a balance between risk and return.
- (ii) When a conflict exists between risk and return, the Group should seek to increase return without-exceeding the risk limits.
- (iii) Spread the risks to prevent them from being concentrated in specific areas.
- (iv) Analyze the effect of various market fluctuations on parts of or entire portfolio on a regular basis.
- (v) Separate risk management segment, operating segment, and segment that deals with trade-confirmation and payments to maintain independence from one another.

Risk management committee is responsible for setting maximum permissible limits for each risk, and the risk management conference is responsible for checking compliance with the limit and the risk levels.

Risk management committee is the top decision-making body within the Board of Directors for risk management. Through risk management committee, the Group establishes the control system of risk management from top management to operating segment. However, risk management conference is a subordinate committee for risk management and practices risk management by business unit in detail.

Risk management center consists of risk management team and credit risk analysis team. Risk management team manages market risk, liquidity risk, operational risk and capital and credit risk analysis team to perform credit risk analysis of counterparties and assessment on loan contracts. Risk management center deals with monitoring of risk position, risk measurement, identification of assets exposed to risk and forecasting change of risk position.

##### Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. Credit risk arises from on-balance and off-balance accounts including loans, financial guarantees, securities and derivatives. The purpose to manage the credit risk is to control the relevant losses upon the counterparties' default, for a certain period, within the allowable range.

Credit risk management is performed by the risk management committee and judging committee, risk management conference and credit risk management department which is a subordinate organization of the risk management center.

Risk management committee establishes risk management strategy through the periodical report on asset management and portfolio construction. Judging committee is delegated to deal with all the matters. Credit risk management department, which is separated from operating segments, manages the overall credit risk of the Group and operates the credit risk management system.

## **49. Risk management (cont'd)**

### **Credit risk management**

#### **Loans**

Performing comprehensive analysis on economic environments and changes, the Group reduces credit concentration by setting credit limits on same counterparties to ensure asset quality.

The Group measures and manages risk indicators of each operating segment. Also, the Group regularly examines the counterparties whose credit ratings are likely to be degraded.

As to large credit, the Group examines the customer's credit and adequacy of credit evaluation as part of the subsequent management process. In addition, the Group conducts focused examinations on industries or groups with increasing credit risks and performs sample inspections on small loans.

#### **Debt securities**

The Group controls credit exposure of debt securities through either the agencies' ratings of creditworthiness or its own rating. The debt securities are held as a means of maintaining resources in order to keep high credit rating as well as to meet the demands of financing.

### **Risk reduction policy**

#### **Collateral**

The Group manages various policies and practices so as to reduce credit risks. Acquisition of collateral on loans is conventional method to reduce credit, and collaterals for secured loans are mainly deposits and financial instruments such as debt securities or equity securities. Collaterals on financial assets other than loans are decided by the attributes of the financial instruments. Debt securities are usually unsecured; asset backed securities or other similar instruments are secured by financial instrument portfolio.

#### **Derivatives**

Considering the notional exposure, the amount exposed to credit risk remains within small limits. Credit exposure is managed and controlled through limiting the counterparty risks such as latent exposure to market fluctuations.

#### **Master netting arrangement**

The Group limits credit exposure by entering into a 'master netting agreement' with the counterparties in the high volume trading. Generally such an agreement is settled by gross, and therefore assets and liabilities related to it are not offset in the financial statements of position. However, in case the remaining contracts are settled net at the end because default occurs, credit risk related to profitable contracts decreases. Due to the impact of individual trades, total credit exposure can vary substantially in the short term.

**49. Risk management (cont'd)**

**Maximum exposure to credit risk**

The maximum exposure to credit risk as of December 31, 2018 and 2017 are as follows. The Group does not consider risk reduction obtained by collaterals or other. Equity securities in the trading financial assets and available-for-sale financial assets are excluded. (Korean won in thousands):

	December 31, 2018		December 31, 2017	
On balance accounts:				
Cash and due from banks	₩	1,944,296,437	₩	1,403,474,941
Financial assets measured at FVTPL		10,757,170,371		8,535,157,127
Derivative instruments		116,724,495		54,455,108
Financial assets designated at FVTPL		-		168,196,030
Financial assets measured at FVOCI		610,292,987		
Available-for-sale financial assets		-		879,985,684
Loans		12,847,967,580		8,652,629,491
CMA management assets		4,995,324		5,000,000
Lease assets		1,000,789,993		994,387,160
Other financial assets		820,377,633		621,056,791
	₩	<u>28,102,614,820</u>	₩	<u>21,314,342,332</u>
Off balance accounts(*)				
Commitments on loans	₩	4,574,788,168	₩	2,745,266,530
ABCP Purchase agreement		611,500,000		616,800,000
	₩	<u>5,186,288,168</u>	₩	<u>3,362,066,530</u>

(\*) The amounts provided to the same counterparty for two or more contracts have been excluded.

Gross book values of loans, finance lease assets, and other financial assets measured under the expected credit losses measurement method by internal credit rating are as follows (Korean won in thousands):

	December 31, 2018			
	12 month expected credit loss	Lifetime expected credit losses	Impaired loans Lifetime expected credit losses	Total
Loans:				
AAA	₩ 139,374,466	₩ -	₩ -	₩ 139,374,466
AA- to AA+	1,304,174,388	16,543,183	-	1,320,717,571
A-To A+	2,620,841,549	-	-	2,620,841,549
BBB- to BBB+	4,265,335,089	8,964,890	-	4,274,299,979
BB- to BB+	15,353,701	14,189,888	-	29,543,589
Unrated	4,049,606,765	288,121,934	125,461,727	4,463,190,426
	₩ <u>12,394,685,958</u>	₩ <u>327,819,895</u>	₩ <u>125,461,727</u>	₩ <u>12,847,967,580</u>
Lease				
BBB- to BBB+	34,075,684	44,566	-	34,120,250
BB- to BB+	1,236,649	318,938	-	1,555,587
Unrated	768,633,451	178,136,190	18,344,515	965,114,156
	₩ <u>803,945,784</u>	₩ <u>178,499,694</u>	₩ <u>18,344,515</u>	₩ <u>1,000,789,993</u>
Other financial assets				
Unrated	813,309,271	2,513,883	4,554,479	820,377,633
	₩ <u>14,011,941,013</u>	₩ <u>508,833,472</u>	₩ <u>148,360,721</u>	₩ <u>14,669,135,206</u>

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**49. Risk management (cont'd)**

Off-balance accounts exposure measured under the expected credit losses measurement method classified by internal credit rating is as follows (Korean won in thousands):

	December 31, 2018			
	12 month expected credit loss	Lifetime expected credit losses	Impaired loans Lifetime expected credit losses	Total
Loans:				
AAA	₩ 384,517,522	₩ -	₩ -	₩ 384,517,522
AA- to AA+	181,760,000	-	-	181,760,000
A-To A+	2,114,525,308	-	-	2,114,525,308
BBB- to BBB+	1,872,242,338	2,070,000	-	1,874,312,338
BB- to BB+	12,073,000	-	-	12,073,000
	₩ 4,565,118,168	₩ 2,070,000	₩ -	₩ 4,567,188,168
ABCP purchase commitment				
AAA	415,300,000	-	-	415,300,000
AA- to AA+	12,500,000	-	-	12,500,000
A-To A+	115,000,000	-	-	115,000,000
BBB- to BBB+	26,300,000	-	-	26,300,000
BB- to BB+	50,000,000	-	-	50,000,000
	619,100,000	-	-	619,100,000
	₩ 5,184,218,168	₩ 2,070,000	₩ -	₩ 5,186,288,168

	December 31, 2018			
	12 month expected credit loss	Lifetime expected credit losses	Impaired loans Lifetime expected credit losses	Total
Public bonds and financial bonds				
AAA	₩ 99,967,054	₩ -	₩ -	₩ 99,967,054
AA- to AA+	158,213,784	-	-	158,213,784
A-To A+	15,083,938	-	-	15,083,938
BBB- to BBB+	274,945,653	-	-	274,945,653
BBB- to BBB+	25,001,221	-	-	25,001,221
BB- to BB+	30,095,655	-	-	30,095,655
B- to B+	6,985,683	-	-	6,985,683
	₩ 610,292,988	₩ -	₩ -	₩ 610,292,988

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**49. Risk management (cont'd)**

Impaired or neither past due nor impaired loans among loans, cash management account assets, finance lease assets and other financial assets as of December 31, 2017 is as follows (Korean won in thousands):

	December 31, 2017			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Loans:				
Call loans	₩ 141,126	₩ -	₩ -	₩ 141,126
Repurchase agreement	901,500,000	-	-	901,500,000
Granting of credit	896,111,629	-	-	896,111,629
Loans to employees	2,999,017	-	68,673	3,067,690
Loans	6,364,196,789	69,199,166	108,190,303	6,541,586,258
Short-term note trading	21,000,000	-	-	21,000,000
Loans purchased	198,133,141	-	-	198,133,141
Privately-placed bonds	87,428,754	-	-	87,428,754
Advance for customers	-	-	3,660,893	3,660,893
Allowance for possible loan losses	(54,957,117)	(9,539,912)	(60,513,931)	(125,010,960)
	₩ 8,416,553,339	₩ 59,659,254	₩ 51,405,938	₩ 8,527,618,531
CMA management assets:				
Notes discounted	5,000,000	-	-	5,000,000
Allowance for possible loan losses	(5,542)	-	-	(5,542)
	₩ 4,994,458	₩ -	₩ -	₩ 4,994,458
Lease assets:				
Financial lease receivables	970,574,381	16,489,857	7,322,922	994,387,160
Allowance for possible loan losses	(4,241,317)	(964,467)	(5,448,836)	(10,654,620)
	₩ 966,333,064	₩ 15,525,390	₩ 1,874,086	₩ 983,732,540
Other financial assets (*):				
Other financial assets	615,625,541	1,125,240	4,306,010	621,056,791
Allowance for possible loan losses	(498,927)	(183,199)	(4,138,575)	(4,820,701)
	₩ 615,126,614	₩ 942,041	₩ 167,435	₩ 616,236,090
	₩ 10,003,007,475	₩ 76,126,685	₩ 53,447,459	₩ 10,132,581,619

(\*) Items that do not meet the definition of loans and receivables were excluded from other assets.

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**49. Risk management (cont'd)**

Loans that are past due but not impaired as of December 31, 2017 consist of the following (Korean won in thousands):

	December 31, 2017	
Less than 30 days	₩	60,355,142
30 to 60 days		18,515,280
60 to 90 days		7,943,841

**Impaired loans**

The details of impaired loans as of December 31, 2017 are as follows (Korean won in thousands):

	December 31, 2017			
	Loans		Allowance for possible loan losses	
Loans:				
Loans to employees	₩	68,673	₩	68,673
Loans		108,190,303		56,784,365
Loans purchased		-		-
Privately-placed bonds		3,660,893		3,660,893
Advance for customers		-		-
	₩	111,919,869	₩	60,513,931
Lease assets		7,322,922		5,448,836
Other financial assets:				
Receivables from trading on consignment		503,345		503,345
Other receivables		3,397,064		3,232,310
Accrued income		405,601		402,920
	₩	4,306,010	₩	4,138,575
	₩	123,548,801	₩	70,101,342

Details on the classification of total loans receivable as of December 31, 2017 consist of the following (Korean won in thousands):

	December 31, 2017						Allowance for possible loan losses
	Amount	Classification				Estimated loss	
		Normal	Pre-cautionary	Substandard	Doubtful		
Loans:							
Call loans	₩ 141,126	₩ 141,126	₩ -	₩ -	₩ -	₩ -	₩ -
Repurchase agreements	901,500,000	901,500,000	-	-	-	-	-
Broker's loan	896,111,629	896,111,629	-	-	-	-	-
Loans to employees	3,067,690	2,999,017	-	-	-	68,673	68,673
Loans	6,541,586,258	6,352,454,478	70,239,672	71,518,032	17,697,633	29,676,443	119,128,023
Notes discounted	21,000,000	21,000,000	-	-	-	-	88,314
Loans purchased	198,133,141	198,133,141	-	-	-	-	1,462,814
Privately-placed bonds	87,428,754	86,018,754	1,410,000	-	-	-	602,243
Advance for customers	3,660,893	-	-	-	-	3,660,893	3,660,893
	₩ 8,652,629,491	₩ 8,458,358,145	₩ 71,649,672	₩ 71,518,032	₩ 17,697,633	₩ 33,406,009	₩ 125,010,960
CMA management assets:							
CMA short-term note trading	5,000,000	5,000,000	-	-	-	-	5,542
Lease assets:							
Financial lease receivables	994,387,160	968,841,806	15,696,076	4,187,143	1,670,295	3,991,840	10,654,620
Other financial assets:							
Accounts receivable	495,732,835	492,402,074	731,751	-	454,020	2,144,990	3,244,708
Receivable spot exchange	32,166,600	32,166,600	-	-	-	-	-
Accrued income	77,954,575	76,632,956	918,713	-	-	402,906	912,083
Others	15,202,781	14,457,843	5,822	-	111,029	628,087	663,910
	₩ 621,056,791	₩ 615,659,473	₩ 1,656,286	₩ -	₩ 565,049	₩ 3,175,983	₩ 4,820,701
	₩ 10,273,073,442	₩ 10,047,859,424	₩ 89,002,034	₩ 75,705,175	₩ 19,932,977	₩ 40,573,832	₩ 140,491,823

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**49. Risk management (cont'd)**

Details of the credit soundness of due from banks and debt securities as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

	December 31, 2018		December 31, 2017	
	Financial assets measured at FVTPL(*)	Financial assets held-for-trading (*)	Financial assets designated at fair value through profit or loss (*)	Available-for-sale financial assets (*)
Bonds:				
Government, public and specific bonds	₩ 5,830,634,343	₩ 3,894,146,343	₩ -	₩ 149,861,782
AAA	3,248,941,051	3,994,337,062	-	-
AA- to AA+	404,079,558	226,084,473	156,669,843	31,151,639
A- to A+	112,467,048	112,932,888	-	43,272,324
Less A-	171,759,599	183,518,377	2,446,028	58,524,324
Unrated	8,158,335	2,880,715	8,584,192	375,867,655
	₩ 9,776,039,934	₩ 8,413,899,858	₩ 167,700,063	₩ 658,677,724
CP:				
A1	189,976,118	85,128,844	-	-
A2 to A3	34,605,645	36,128,425	-	171,069,177
Less B	-	-	-	-
	₩ 224,581,763	₩ 121,257,269	₩ -	₩ 221,307,960
Loans and notes discounted				
AA- to AA+	9,990,748	-	-	-
A- to A+	1,395,255	-	-	-
BBB- to BBB+	351,257,213	-	-	-
	₩ 362,643,216	₩ -	₩ -	₩ -
Hybrid financial instruments, etc.				
AA- to AA+	121,071,823	-	-	-
A- to A+	35,496,937	-	-	-
BBB- to BBB+	2,340,587	-	-	-
B- to B+	27,122,221	-	-	-
Unrated	212,869,214	-	-	-
	398,900,782	-	-	-
	₩ 10,762,165,695	₩ 8,535,157,127	₩ 167,700,063	₩ 879,985,684

(\*) The Group surveyed the credit soundness of debt securities in financial assets. In case of other financial assets, credit risk is not taken into consideration or the rating of credit soundness cannot be calculated due to their nature of business.



#### 49. Risk management (cont'd)

Details of industrial credit exposure classified by Korean Standard Industrial Classification as of December 31, 2018 and 2017 consist of the following (Korean won in thousands):

	December 31, 2018					
	Finance and insurance	Manufacturing	Wholesale and retailing	Construction	Others	Total
Cash and due from banks	₩ 1,944,296,437	₩ -	₩ -	₩ -	₩ -	₩ 1,944,296,437
Financial assets measured at FVTPL (*)	3,759,307,718	392,873,854	3,225,044	26,953,361	6,574,810,394	10,757,170,371
Derivative instrument assets (*)	116,724,495	-	-	-	-	116,724,495
Financial assets measured at FVOCI (*)	553,832,335	-	-	-	56,460,652	610,292,987
Loans	5,867,642,491	65,139,438	156,450,514	1,312,463,240	5,446,271,897	12,847,967,580
CMA	4,995,324	-	-	-	-	4,995,324
Lease assets	69,781,820	64,120,472	111,370,143	47,304,373	708,213,185	1,000,789,993
Other financial assets	407,798,838	-	-	-	412,578,795	820,377,633
	<u>₩ 12,724,379,458</u>	<u>₩ 522,133,764</u>	<u>₩ 271,045,701</u>	<u>₩ 1,386,720,974</u>	<u>₩ 13,198,334,923</u>	<u>₩ 28,102,614,820</u>

  

	December 31, 2017					
	Finance and insurance	Manufacturing	Wholesale and retailing	Construction	Others	Total
Cash and due from banks	₩ 1,403,474,941	₩ -	₩ -	₩ -	₩ -	₩ 1,403,474,941
Financial assets held-for-trading (*)	4,093,184,483	61,389,242	-	14,152,900	4,366,430,502	8,535,157,127
Derivative instrument assets (*)	54,455,108	-	-	-	-	54,455,108
Financial assets designated at fair value through profit or loss (*)	32,875,489	4,974,595	-	-	130,345,946	168,196,030
Available-for-sale financial assets (*)	548,585,845	157,620,354	-	9,196,964	164,582,521	879,985,684
Loans	2,432,091,306	294,370,179	82,811,210	926,732,912	4,916,623,884	8,652,629,491
CMA	5,000,000	-	-	-	-	5,000,000
Lease assets	67,244,617	62,236,557	103,547,362	34,945,220	726,413,404	994,387,160
Other financial assets	227,962,633	-	-	-	393,094,158	621,056,791
	<u>₩ 8,864,874,422</u>	<u>₩ 580,590,927</u>	<u>₩ 186,358,572</u>	<u>₩ 985,027,996</u>	<u>₩ 10,697,490,415</u>	<u>₩ 21,314,342,332</u>

(\*) The Group excluded financial assets below, since they had no significant credit risk.

- Financial assets held-for-trading: Stocks and collective investment securities
- Financial assets designated at fair value through profit and loss: Reserve for claims of customers' deposits (trust)
- Financial assets available-for-sale: Stocks, collective investment securities, foreign currency securities and others
- Derivative financial assets: Options purchased of stock

#### Liquidity risk

##### Procedures of the liquidity risk management

The Group defines liquidity risk as the possibility of incurring losses due to a temporary shortage in funds caused by a maturity mismatch or an unexpected capital outlay. Liquidity risk soars when funding rates rise, or assets are sold below a normal price, or a good investment opportunity is missed. The purpose to manage liquidity risk is to early identify the potential risk factors upon raising and operating the Group's funds and to obtain a stable revenue base maintaining an appropriate level of the Group's liquidity by systematically managing the risk.

The targets of liquidity risk management are all assets and liabilities outstanding in the Group's statements of financial position.

The Group's principles of the liquidity risk management are as follows:

- Set up and comply with tolerable limits to liquidity risk.
- Prepare insufficient liquidity by forecasting cash requirements regularly.
- Establish an emergency plan against a liquidity crisis to prepare for an unexpected liquidity risk.
- Evaluate and manage the effect of a large amount of money that is loaned out, invested, or procured on liquidity risks.

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**49. Risk management (cont'd)**

The residual maturity of non-derivative financial instruments as of December 31, 2018 and 2017 consists of the following (Korean won in thousands):

	December 31, 2018							Total
	Within 1 week	After 1 week ~ but no later than 1 month	After 1 month~ but no later than 3 months	After 3 months~ but no later than 6 months	After 6 months~ but no later than 1 year	After 1 year		
<b>Assets:</b>								
Cash and due from banks	₩ 1,419,808,138	₩ 10,000,658	₩ 30,000,000	₩ 202,000,000	₩ 274,353,352	₩ 8,134,289	₩ 1,944,296,437	
Financial assets measured at FVTPL	7,523,435,965	673,456,120	185,640,730	126,366,097	48,984,783	2,199,286,676	10,757,170,371	
Financial assets measured at FVOCI	268,181,407	15,000,652	-	25,033,975	194,999,843	107,077,110	610,292,987	
Loans (*1)	1,266,522,095	769,107,747	1,388,296,214	1,333,743,867	1,357,010,159	6,733,287,498	12,847,967,580	
CMA	-	-	-	4,995,324	-	-	4,995,324	
Lease assets	7,765,953	22,656,572	61,448,313	88,095,227	157,738,179	663,085,749	1,000,789,993	
Other financial assets (*2)	623,883,526	49,821,209	86,099,024	3,343,280	12,654,632	44,575,962	820,377,633	
	<u>₩ 11,109,597,084</u>	<u>₩ 1,540,042,958</u>	<u>₩ 1,751,484,281</u>	<u>₩ 1,783,577,770</u>	<u>₩ 2,045,740,948</u>	<u>₩ 9,755,447,284</u>	<u>₩ 27,985,890,325</u>	
<b>Liabilities:</b>								
Deposits (*2)	₩ 643,898,216	₩ 35,251,486	₩ 93,033,524	₩ 165,174,148	₩ 1,319,431,177	₩ 182,171,378	₩ 2,438,959,929	
Financial liabilities held-for- trading	756,945	2,913,430	140,215,764	150,580,748	1,178,056,479	314,693,855	1,787,217,221	
Financial liabilities designated at fair value through profit or loss (*3)	1,348,785	171,560,614	506,577,497	24,072,148	70,932,486	2,558,233,984	3,332,725,514	
Borrowings	5,470,771,721	1,824,835,125	1,045,528,206	659,610,617	790,560,229	1,485,617,813	11,276,923,711	
Debentures	5,000,000	877,980,000	1,307,750,000	524,098,954	800,000,000	3,470,000,000	6,984,828,954	
Other financial liabilities	347,329,512	4,028,555	101,306,891	22,831,787	246,562,834	133,843,364	855,902,943	
	<u>₩ 6,469,105,179</u>	<u>₩ 2,916,569,210</u>	<u>₩ 3,194,411,882</u>	<u>₩ 1,546,368,402</u>	<u>₩ 4,405,543,205</u>	<u>₩ 8,144,560,394</u>	<u>₩ 26,676,558,272</u>	

(\*1) Deferred loan fees and present value discounts are excluded from loans.

(\*2) Present value discounts of other assets and due from banks are excluded.

(\*3) The credit risk assessment adjustment for financial liabilities designated at fair value through profit or loss and Day 1 profit or loss adjustment are excluded.

(\*4) Commitments mentioned in Note 41-3 are the expected maximum exposure which the Group may have to pay in accordance with the contracts in the future. The Group expects that the actual payment will be less than the maximum exposure according to its past transactions and the nature of the commitments. It is difficult for the Group to reasonably estimate the actual timing, amount and probability of settlement of the commitments.

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**49. Risk management (cont'd)**

	December 31, 2017							Total
	Within 1 week	After 1 week ~ but no later than 1 month	After 1 month~ but no later than 3 months	After 3 months~ but no later than 6 months	After 6 months~ but no later than 1 year	After 1 year		
<b>Assets:</b>								
Cash and due from banks	₩ 1,340,543,128	₩ 8,317,805	₩ 31,222,471	₩ 4,100,000	₩ 2,500,000	₩ 16,791,537	₩ 1,403,474,941	
Financial assets held-for-trading	6,129,815,266	836,212,598	24,817,090	55,259,681	116,057,120	1,372,995,372	8,535,157,127	
Financial assets designated at fair value through profit or loss	53,962,228	-	-	-	-	114,233,802	168,196,030	
Available-for-sale financial assets (*1)	159,915,126	186,072,583	193,074,530	440,138	54,692,081	285,791,226	879,985,684	
Loans (*2)	992,370,996	511,947,550	1,507,884,406	881,720,121	1,239,250,101	3,519,456,317	8,652,629,491	
CMA	5,000,000	-	-	-	-	-	5,000,000	
Lease assets	6,118,675	24,358,326	62,734,123	92,445,697	172,539,908	636,190,431	994,387,160	
Other financial assets (*3)	483,001,310	-	88,060,259	1,048,230	14,544,371	34,402,621	621,056,791	
	<u>₩ 9,170,726,729</u>	<u>₩ 1,566,908,862</u>	<u>₩ 1,907,792,879</u>	<u>₩ 1,035,013,867</u>	<u>₩ 1,599,583,581</u>	<u>₩ 5,979,861,306</u>	<u>₩ 21,259,887,224</u>	
<b>Liabilities:</b>								
Deposits (*3)	₩ 744,854,597	₩ 36,989,459	₩ 108,427,837	₩ 174,233,673	₩ 2,037,271,613	₩ 143,999,558	₩ 3,245,776,737	
Financial liabilities held-for-trading	-	2,097,522	184,149,685	37,789,355	1,353,024,296	213,753,982	1,790,814,840	
Financial liabilities designated at fair value through profit or loss	-	70,742,364	93,287,309	86,299,273	70,913,279	126,533,641	447,775,866	
Borrowings	5,083,830,390	1,383,448,287	523,500,000	322,509,859	383,700,000	1,247,511,595	8,944,500,131	
Debentures	100,000,000	434,800,000	1,026,600,000	400,000,000	648,000,000	2,128,575,540	4,737,975,540	
Other financial liabilities	316,346,708	4,415,633	160,380,956	-	127,101,809	94,008,737	702,253,843	
	<u>₩ 6,245,031,695</u>	<u>₩ 1,932,493,265</u>	<u>₩ 2,096,345,787</u>	<u>₩ 1,020,832,160</u>	<u>₩ 4,620,010,997</u>	<u>₩ 3,954,383,053</u>	<u>₩ 19,869,096,957</u>	

(\*1) Non-marketable equity securities, collective investment securities, foreign currency securities and others are excluded from available-for-sale financial assets.

(\*2) Deferred loan fees and present value discounts are excluded from loans.

(\*3) Present value discounts of other assets and due from banks are excluded.

(\*4) Commitments mentioned in Note 39-3 are the expected maximum exposure which the Group may have to pay in accordance with the contracts in the future. The Group expects that the actual payment will be less than the maximum exposure according to its past transactions experience and the nature of the commitments. It is difficult for the Group to reasonably estimate the actual timing, amount and probability of settlement of the commitments.

Maturity profiles of the marketable non-derivative financial instruments are within one week and maturity profiles of non-marketable non-derivative financial instruments are their residual maturities.

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**49. Risk management (cont'd)**

The residual maturity of derivative financial instruments as of December 31, 2018 and 2017 consists of the following (Korean won in thousands):

		December 31, 2018						
		Within 1 week	After 1 week~ but no later than 1 month	After 1 month~ but no later than 3 months	After 3 months~ but no later than 6 months	After 6 months~ but no later than 1 year	After 1 year	Total
Exchange-traded derivatives	₩	-	₩ (791,388)	₩ (42,080,152)	₩ (2,832,728)	₩ 19,255,388	₩ (964,750)	₩ (27,413,630)
Over-the-counter derivatives:								
Interests		-	6,577,263	22,706	(301,002)	183,939	18,194,318	24,677,224
Currency		118,193	(1,374,399)	(1,877,155)	(195,130)	(1,474,137)	(1,112,581)	(5,915,209)
Stock		-	-	-	(2,028,960)	(41,643)	8,337,133	6,266,530
Credit		-	-	(1,978,281)	(1,229,802)	5,732,589	(309,856,581)	(307,332,075)
Others		118,193	5,202,864	(3,832,730)	(3,754,894)	4,400,748	(284,437,711)	(282,303,530)
	₩	118,193	₩ 4,411,476	₩ (45,912,882)	₩ (6,587,622)	₩ 23,656,136	₩ (285,402,461)	₩ (309,717,160)
	₩	-	₩ (791,388)	₩ (42,080,152)	₩ (2,832,728)	₩ 19,255,388	₩ (964,750)	₩ (27,413,630)

  

		December 31, 2017						
		Within 1 week	After 1 week~ but no later than 1 month	After 1 month~ but no later than 3 months	After 3 months~ but no later than 6 months	After 6 months~ but no later than 1 year	After 1 year	Total
Exchange-traded derivatives	₩	11,508	₩ (831,846)	₩ 237,246	₩ 5,806	₩ 4,477,470	₩ 19,404,723	₩ 23,304,907
Over-the-counter derivatives:								
Interests		(78,812)	119,062	62,816	(259,386)	(318,254)	11,098,193	10,623,619
Currency		(35)	2,070,225	2,116,754	725,200	428,792	(1,841,779)	3,499,157
Stock		-	-	-	607,762	(28,978)	(5,982,869)	(5,404,085)
Credit		-	-	-	-	-	418,856	418,856
Others		-	21,885	65,584	11,551	(1,352,155)	(957,174)	(2,210,309)
	₩	(78,847)	₩ 2,211,172	₩ 2,245,154	₩ 1,085,127	₩ (1,270,595)	₩ 2,735,227	₩ 6,927,238
	₩	(67,339)	₩ 1,379,326	₩ 2,482,400	₩ 1,090,933	₩ 3,206,875	₩ 22,139,950	₩ 30,232,145

**Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to the changes in market variables such as interest rates, equity prices, and exchange ratios in the market and so on.

The purposes of market risk management are to control the tolerable loss-limit of assets and liabilities arising from the changes in market variables such as interest rates, foreign exchanges and equity prices. The scope of market risk management is marketable securities which are traded for operating the Group's properties, net foreign exchange positions, derivatives, other assets and liabilities embedded with market risks and off-balances. Significant market risks are interest rate risk, foreign exchange risk and equity price risk as of the reporting date.

The Group manages and controls the market risk arising from the changes of market variables within adequate level by measuring and monitoring the risk exposures on a regular basis.

**Trading positions**

The trading positions include positions of interest rate, equity price, commodity and foreign exchange held for trading purpose:

- (i) Financial instruments for the purpose of acquiring the differences incurred due to held-for-trading or price fluctuations
- (ii) Financial instruments for the purpose of hedging risks
- (iii) Financial instruments for the purpose of acquiring arbitrages
- (iv) Financial instruments for the purpose of acquisition, brokerage, and market-making

The Group's principles to manage the market risk of its trading positions are to measure its market risk status on a regular basis and to establish and comply with the various market risk limits. The Group analyzes whether the return against risk is appropriate by reviewing its profit and risk on a regular basis.

**49. Risk management (cont'd)**

**Value at risk (VaR)**

Value at Risk ("VaR") is a primary method that manages and measures the degree of market risks of the trading portfolio subject to exposure, which estimates the potential loss of the trading portfolio that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The Group calculates VaR for a standard 10 days in the 99% confidence level. In addition, to account for the method's limited use, a stress test is performed in order to measure the extent of the loss in extreme cases.

The types of Market VaR as of December 31, 2018 and 2017 consist of the following (Korean won in thousands):

	December 31, 2018	Average	Max	Min	December 31, 2017
Interest rates risk	₩ 12,615,152	₩ 9,576,485	₩ 12,808,091	₩ 6,690,447	₩ 12,074,127
Stock price risk	48,086,066	40,065,079	63,845,483	14,335,984	24,145,309
Foreign exchange rates risk	18,768,801	10,122,763	20,659,835	3,059,575	1,927,894
Total risk	<u>₩ 79,470,019</u>				<u>₩ 38,147,330</u>

**Non-trading position**

Interest rate risk of non-trading position is the risk of loss when interest rate fluctuates at a disadvantage to assets and liabilities sensitive of interest rate. This is caused by the mismatch between the maturity structure of interest-bearing assets and liabilities and the interest rate revision cycle. Meritz Capital Co., Ltd., a subsidiary, maintains interest rate risk management on all interest-bearing assets, liabilities and transactions except for those subject to price fluctuation risk management.

The interest rate VaR is an estimated maximum loss of net asset due to adverse changes of interest rate. The interest rate VaR of non-trading position of Meritz Capital Co., Ltd., a subsidiary, calculated by standard method as of December 31, 2017 is as follows (Korean won in thousands):

	December 31, 2018	December 31, 2017
Interest rate VaR	₩ 46,522,928	₩ 58,394,151

**Operational risk**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. Risks related to strategy or damaging reputation are excluded but legal or regulatory implications are identified as operational risks. Operational risk includes non-financial risks related to losses due to internal operational problems and due to externalities such as natural disasters and terrorist attacks. Operational risk does not have a direct correlation with income and the Group needs to mitigate such risk through internal controls and insurance. The Group measures the operational risk exposures using the approaches suitable to the Financial Investment Industry Regulations.

**49. Risk management (cont'd)**

**Capital management**

The Group evaluates the internal capital adequacy by calculating net capital ratio ("NCR") in accordance with the *Regulation on Financial Investment Services* and detailed enforcement regulations in order to have adequate capital and comply with supervisory regulation.

NCR as of December 31, 2018 and 2017 consist of the following (Korean won in thousands):

	December 31, 2018	December 31, 2017
I. Net capital for business	₩ 2,287,606,356	₩ 2,185,717,094
Net asset amount in consolidated financial statements	3,392,675,071	3,310,993,563
Deduction	(1,266,564,587)	(1,281,651,124)
Add	161,495,872	156,374,655
II. Total risk amount	1,376,938,656	581,610,550
Market risk amount	358,077,105	311,790,231
Credit risk amount	903,818,033	168,610,840
Operating risk amount	115,043,518	101,209,479
III. Surplus capital(I - II)	910,667,700	1,604,106,544
IV. Regulatory capital required (*)	134,610,000	134,610,000
V. NCR(III/IV)	676.52%	1,191.67%

(\*) Own capital required is calculated as 70% of legal capital (₩192.3 billion).

**50. Comprehensive share exchange**

By the resolution of the Board of Directors on November 16, 2016, the Company entered into a comprehensive share exchange agreement with Meritz Capital Co., Ltd., where the Company gains 100% ownership in Meritz Capital Co., Ltd. The objective of the comprehensive share exchange is to promote efficiency and unity of management thereby create synergy effects. This may also enhance corporate value as well as continuous growth.

The share exchange agreement was approved at the general meeting of shareholders on March 24, 2017. 43,200,000 shares of Meritz Capital Co., Ltd. and 109,002,538 common shares of the Company (2.5232069 shares of common stock of the Company per ordinary share of Meritz Capital Co., Ltd.) were exchanged on April 28, 2017, the stock exchange date.

The book value of Meritz Capital Co., Ltd.'s assets and liabilities as of March 31, 2017 are as follows (Korean won in thousands):

	March 31, 2017
Cash and due from banks	₩ 502,782,531
Financial asset at fair value through profit or loss	2,223,678
Available-for-sale financial assets:	54,514,300
Loans receivable	2,476,399,035
Lease asset	766,458,069
Property and equipment	1,423,648
Intangible assets	3,207,945
Other assets	36,836,961
	<u>3,843,846,167</u>

**50. Comprehensive share exchange (cont'd)**

	<u>March 31, 2017</u>
Deposits	₩ 121,476,947
Borrowings	475,000,000
Debentures	2,746,182,002
Income tax liabilities	14,755,786
Other liabilities	<u>78,280,457</u>
	<u>3,435,695,192</u>
Net asset value	<u>₩ 408,150,975</u>

The comprehensive share exchange is a business combination under common control where Meritz Capital Co., Ltd., the subsidiary of Meritz Financial Group Inc., the controlling company, becomes a wholly-owned subsidiary of the Company. Accordingly, the Company accounted for the comprehensive share exchange by using book values of assets and liabilities of Meritz Capital Co., Ltd. in the consolidated financial statements of Meritz Financial Group Inc. The Company also adjusted the difference in the book values of assets and liabilities and issued share consideration in other components of capital.

**51. Approval of the financial statements**

The 2018 consolidated financial statements were approved by the Board of Directors on February 1, 2019.