

Meritz Securities Co., Ltd. and its subsidiaries

Consolidated financial statements

for the years ended December 31, 2015 and 2014

with independent auditors' report

Meritz Securities Co., Ltd. and its subsidiaries

Table of contents

Independent auditors' report	1
Consolidated financial statements	
Consolidated statements of financial position	I
Consolidated statements of comprehensive income	Í
Consolidated statements of changes in equity	Î
Consolidated statements of cash flows	Ï
Notes to the consolidated financial statements	J

Independent auditors' report

To the Shareholders and Board of Directors of Meritz Securities Co., Ltd.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Meritz Securities Co., Ltd. (the Company) and its subsidiaries (collectively, the Group), which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility 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 (KIFRS), 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial

statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Meritz Securities Co., Ltd. and its subsidiaries as at December 31, 2015 and 2014, and its financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Ernst & Young Han Young

March 8, 2016

This audit report is effective as at March 8, 2016, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors' 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, 2015 and 2014

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.

Address: 15 ,Gukjegeumyung-ro 6-gil Yeongdeungpo-gu Seoul, Republic of Korea

Contact: 1588-3400

Meritz Securities Co., Ltd. and its subsidiaries
Consolidated statements of financial position
as at December 31, 2015 and 2014
(Korean won in thousands)

	<u>Notes</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Assets			
Cash and due from banks	7, 37, 43, 44, 47	₩ 646,068,280	₩ 482,828,180
Financial assets at fair value through profit or loss	8, 23, 37, 43, 44, 45, 47	7,470,734,837	6,032,810,619
Available-for-sale financial assets	9, 43, 44, 47	733,421,016	777,738,421
Investments in associates	10	25,186,159	25,207,861
Loans	11, 43, 44, 45, 47	4,449,846,184	3,415,625,379
CMA	11, 43, 44, 47	54,820,249	57,903,063
Lease assets	12, 43, 44, 47	472,664,412	608,511,878
Property and equipment	13	101,299,873	103,958,702
Investment property	14	30,052,288	27,622,981
Intangible assets	15	40,451,501	48,413,560
Tax assets	35	45,992,366	-
Other assets	16, 37, 43, 44, 45, 47	358,131,463	203,154,803
Total assets		<u>₩ 14,428,668,628</u>	<u>₩ 11,783,775,447</u>
Liabilities			
Deposits	17, 37, 43, 44, 47	₩ 3,463,870,842	₩ 3,268,978,645
Financial liabilities at fair value through profit or loss	18, 23, 43, 44, 45, 47	1,196,829,299	1,444,864,729
Borrowings	19, 43, 44, 45, 47	7,364,956,845	5,368,764,002
Provisions	20, 39	6,865,566	7,288,879
Defined benefit liabilities	21	1,506,629	4,375,916
Tax liabilities	35	76,054,817	64,562,019
Other liabilities	22, 37, 43, 44, 45, 47	600,020,384	547,809,744
Total liabilities		<u>₩ 12,710,104,382</u>	<u>₩ 10,706,643,934</u>
Equity			
Issued capital	24	₩ 496,638,534	₩ 311,782,377
Capital surplus and adjustments	25, 26	552,416,177	111,625,899
Accumulated other comprehensive income	27	69,538,207	128,205,667
Retained earnings	28	599,971,328	348,143,771
Equity attributable to equity holder of the parent		1,718,564,246	899,757,714
Non-controlling shareholders' equity		-	177,373,799
Total equity		<u>₩ 1,718,564,246</u>	<u>₩ 1,077,131,513</u>
Total liabilities and equity		<u>₩ 14,428,668,628</u>	<u>₩ 11,783,775,447</u>

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

Meritz Securities Co., Ltd. and its subsidiaries
Consolidated statements of comprehensive income
for the years ended December 31, 2015 and 2014

(Korean won in thousands, except per share amounts)

	Notes	Year ended December 31,	Year ended December 31,
Operating revenues:			
Commission income	29	₩ 346,740,943	₩ 186,643,968
Gain on valuation and disposal of financial instruments	30	471,392,957	237,262,708
Gain on derivative valuation and transactions	23, 30	1,557,499,954	488,374,062
Interest income	31	438,896,325	387,601,065
Gain on valuation and disposal of loans	11	25,229,847	28,719,777
Gain on foreign currency transactions		291,664,682	117,271,445
Lease income	12	40,010,387	45,124,556
Others	33	69,613,838	13,883,768
		<u>3,241,048,933</u>	<u>1,504,881,349</u>
Operating expenses:			
Commission expense	29	(21,292,401)	(9,817,513)
Loss on valuation and disposal of financial instruments	30	(314,277,243)	(225,275,296)
Loss on derivative valuation and transactions	23, 30	(1,546,492,097)	(491,604,095)
Interest expense	31	(223,139,350)	(241,741,992)
Loss on valuation and disposal of loans	11	(14,759,959)	(20,218,752)
Loss on foreign currency transactions		(308,845,807)	(114,281,307)
General and administrative expenses	32	(395,222,256)	(247,576,848)
Lease expense	12	(1,587,037)	(4,395,055)
Others	33	(10,312,629)	(5,627,122)
		<u>(2,835,928,779)</u>	<u>(1,360,537,980)</u>
Operating income		405,120,154	144,343,369
Other income	34	4,233,589	37,018,175
Other expenses	34	(2,865,106)	(2,602,186)
Income before income taxes		<u>406,488,637</u>	<u>178,759,358</u>
Income tax expense	35	<u>(119,151,902)</u>	<u>(34,054,946)</u>
Net income	28	<u>₩ 287,336,735</u>	<u>₩ 144,704,412</u>
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of the net defined benefit liabilities	21	(293,932)	(154,148)
Items that may be reclassified subsequently to profit or loss:			
Gain (loss) on valuation of available-for-sale financial assets	9	(58,971,291)	59,298,246
Gain (loss) on effect of foreign currency translation		10,542	-
		<u>(59,254,681)</u>	<u>59,144,098</u>
Total comprehensive income:		<u>₩ 228,082,054</u>	<u>₩ 203,848,510</u>
Controlling interests		237,469,543	203,848,509
Non-controlling interests		(9,387,489)	-
Basic and diluted earnings per share	36	<u>₩ 812</u>	<u>₩ 475</u>

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, 2015 and 2014
(Korean won in thousands)

	Issued capital	Capital surplus	Accumulated other comprehensive income	Retained earnings	Non-controlling shareholders' equity	Total
As at April 1, 2014	₩ 309,477,377	₩ 111,265,375	₩ 69,061,569	₩ 224,668,775	₩ -	₩ 714,473,096
Dividends	-	-	-	(21,229,416)	-	(21,229,416)
Total comprehensive income:						
Net income	-	-	-	144,704,412	-	144,704,412
Other comprehensive income:						
Remeasurements of the net defined benefit liabilities	-	-	(154,148)	-	-	(154,148)
Gain on valuation of available-for-sale financial assets	-	-	59,298,246	-	-	59,298,246
Stock issuance	2,305,000	675,738	-	-	-	2,980,738
Change in capital surplus due to business transfer	-	(315,214)	-	-	-	(315,214)
Change arising from business combination	-	-	-	-	177,373,799	177,373,799
As at December 31, 2014	₩ 311,782,377	₩ 111,625,899	₩ 128,205,667	₩ 348,143,771	₩ 177,373,799	₩ 1,077,131,513

	Issued capital	Capital surplus	Accumulated other comprehensive income	Retained earnings	Non-controlling shareholders' equity	Total
As at January 1, 2015	₩ 311,782,377	₩ 111,625,899	₩ 128,205,667	₩ 348,143,771	₩ 177,373,799	₩ 1,077,131,513
Dividends	-	-	-	(44,309,445)	-	(44,309,445)
Total comprehensive income:						
Net income	-	-	-	296,137,002	(8,800,267)	287,336,735
Other comprehensive income:						
Remeasurements of the net defined benefit liabilities	-	-	(341,683)	-	47,751	(293,932)
Gain on valuation of available-for-sale financial assets	-	-	(58,335,932)	-	(635,360)	(58,971,292)
Gain on foreign currency transactions	-	-	10,155	-	387	10,542
The stock options issuance	50,000	14,709	-	-	-	64,709
Issuance of stock for merging	66,811,951	144,828,868	-	-	(167,986,310)	43,654,509
Capital increase with consideration	117,994,206	295,366,946	-	-	-	413,361,152
Acquisition of treasury shares	-	(3,744)	-	-	-	(3,744)
Allocated expense of share based payment	-	583,499	-	-	-	583,499
As at December 31, 2015	₩ 496,638,534	₩ 552,416,177	₩ 69,538,207	₩ 599,971,328	₩ -	₩ 1,718,564,246

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, 2015 and 2014

(Korean won in thousands)

	Year ended December 31, 2015	Year ended December 31, 2014
Operating activities:		
Net income before income taxes	₩ 406,488,637	₩ 178,759,358
Adjustments to reconcile net income before income taxes to net cash flows:		
Loss (gain) on valuation of trading securities, net	2,924,442	(3,897,527)
Gain (loss) on derivative valuation, net	(20,288,450)	2,372,178
Gain (loss) on valuation of financial assets designated at fair value through profit or loss, net	(1,905,440)	(868,697)
Gain on other financial instruments, net	(7)	(5,511)
Gain on disposal of loans	-	(2,344,320)
Gain on bargain purchase	-	(35,115,454)
Provision for doubtful accounts	13,930,308	21,099,951
Other bad debt expenses (reversal)	19,005	233,695
Gain on foreign exchange translation, net	(372,903)	(96,959)
Depreciation of property and equipment	5,956,023	5,069,245
Amortization of intangible assets	7,188,060	7,196,294
Depreciation expenses on operating lease assets	747,426	1,585,701
Gain related to financial investments available-for-sale, net	(70,589,968)	(12,653,075)
Gain related to lease, net	(8,383)	(86,897)
Contribution to provision (reversal)	(199,193)	4,897,732
Reversal of credit risk adjustments	354,032	(60,248)
Day 1 profit or loss adjustments (reversal)	260,353	128,851
Provision for post-employment benefit obligation	4,510,330	3,255,749
Loss on valuation of incentives	2,842,712	14,236,793
Compensation expenses associated with stock option	583,499	-
Other operating revenues	(721,219)	-
Loss (gain) on disposal of property and equipment, net	24,638	1,371,397
Loss on disposal of intangible assets, net	-	781,215
Gain on disposal of investments in associates, net	(1,294,608)	(240,113)
Impairment on intangible assets	2,565,669	245,691
Impairment on investments in associates	34,243	-
Interest income	(475,619,291)	(428,822,504)
Interest expense	223,139,350	241,741,992
Dividend income	(19,561,558)	(3,934,341)
	<u>(325,480,930)</u>	<u>(183,909,162)</u>
Changes in operating assets and liabilities:		
Cash and due from banks	(48,646,097)	46,955,712
Financial assets at fair value through profit or loss	(1,481,008,573)	(2,185,511,715)
Loans	(1,073,149,191)	26,319,690
Cash management account assets	3,100,000	15,100,000
Lease assets	135,801,767	105,778
Other assets	(160,206,111)	160,857,226
Due to customers	191,098,142	297,389,384
Financial liabilities at fair value through profit or loss	(249,292,242)	129,637,978
Appropriation liability	(119,571)	(399,398)
Defined benefit liabilities	(7,783,030)	(3,502,999)
Other liabilities	167,140,433	41,239,824
	<u>(2,523,064,473)</u>	<u>(1,471,808,520)</u>
Total interest received	469,210,993	394,574,363
Total interest paid	(218,474,032)	(204,150,189)
Total dividends received	19,500,268	3,821,357
Income tax paid	(90,995,945)	(24,942,656)
Net cash flows used in operating activities	<u>(2,262,815,482)</u>	<u>(1,307,655,449)</u>

(Continued)

Meritz Securities Co., Ltd. and its subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2015 and 2014

(Korean won in thousands)

	Year ended December 31, 2015	Year ended December 31, 2014
Investing activities:		
Disposal of financial assets available-for-sale	₩ 574,862,656	₩ 262,820,355
Disposal of property and equipment	-	55,903
Disposal of intangible assets	-	544,609
Decrease in guarantee deposits	832,405	11,326,723
Purchase of financial assets available-for-sale	(602,729,718)	(549,762,817)
Acquisition of investment in equity securities of associates	-	(25,000,000)
Acquisition of property and equipment	(5,271,313)	(5,047,171)
Acquisition of investment property	-	(8,416,052)
Acquisition of intangible assets	(1,353,138)	(818,946)
Increase in guarantee deposits	(696,065)	(2,961,852)
Business transfer between consolidated companies	-	(413,396)
Acquisition of investments in subsidiaries	(28,158,040)	(70,263,016)
Net cash flows used in investing activities	(62,513,213)	(387,935,660)
Financing activities:		
Increase in borrowings, net	2,071,137,851	1,897,320,211
Proceeds from issuance of bonds	-	79,924,500
Cost of stock issuing	413,070,180	2,980,738
Acquisition of treasury stock	(3,744)	-
Subsidiary's appraisal right by stockholders	(259,702)	-
Redemption of debentures	-	(39,900,000)
Dividends paid	(44,309,445)	(21,229,416)
Net cash provided by financing activities	2,439,635,140	1,919,096,033
Net increase in cash and cash equivalents	114,306,445	223,504,924
Effect from exchange rate changes on cash and cash equivalents	228,025	47,075
Cash and cash equivalents at the beginning of the year	431,691,453	208,139,454
Cash and cash equivalents at the end of the year	₩ 546,225,923	₩ 431,691,453

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, 2015 and 2014

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 service, 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 current 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 maintain Meritz IB's operation, which is various financial services related to commercial paper, providing corporate loans and payment guarantees and other related services, until March 2020 according to the Financial Investment Industry Regulations. The Company operates through a network of the main office, 7 domestic branches including sales department.

The Company prepared consolidated financial statements of the Company and its subsidiaries (see Note 2) (collectively referred to as the "Group") in accordance with K-IFRS 1110 *Consolidated Financial Statements*. Investments in an associate and interest in a joint venture 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, 2015 are as follows:

Shareholders	Number of shares	Percentage of ownership (%)
Meritz Financial Group Inc. ("Meritz FG")	160,702,302	32.36
Cho Jeong Ho	6,424,646	1.29
Treasury Stock	43,136,506	8.69
Others	286,375,080	57.66
	496,638,534	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, 2015				
	Country	Ownership (%)	Company	Main Business	Type of control
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	90.01	Investment fund and trust	Investment in securities etc.	Equity holding
Eugene Separate Taxation High-Yield PE No.1	Korea	90.23	Investment fund and trust	Investment in securities etc.	Equity holding
Kiwoom Separate Taxation High-Yield No.2	Korea	90.18	Investment fund and trust	Investment in securities etc.	Equity holding
Daishin Separate Taxation High-Yield Private Investment Trust No.2	Korea	75.07	Investment fund and trust	Investment in securities etc.	Equity holding
Sparx Separate Taxation High-Yield No.1	Korea	95.24	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, 2015 and 2014

2. Scope of consolidation (cont'd)

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, 2015					
	Country	Ownership (%)	Type	Main Business	Type of control	
Capstone Private MBS Real Estate Investment Trust No.2	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding	
Capstone Private MBS Real Estate Investment Trust No.3	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding	
Smart-S 6th Securitization Specialty Co., Ltd.	Korea	1.00	Special purpose Company	Securitization of backed asset	ABS holding, a shareholder with the right of residuary estate	
Smart-S 8th Securitization Specialty Co., Ltd.	Korea	1.00	Special purpose Company	Securitization of backed asset	ABS holding, a shareholder with the right of residuary estate	
Smart-S 10th Securitization Specialty Co., Ltd.	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	
M Square Gyeyang 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment	
M Square Gyeyang 2 nd	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment	
M Square Sungsu 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment	
M Square Pyeongchon 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment	
M Square Dongcheon 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment	
MJD 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment	
Daegu SG	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment	
New Commons 1 st	Korea	-	Special purpose Company	Securitization of backed asset	General loan	
Haeundae Project 1 st	Korea	-	Real estate Finance	Loans on real estates	Mortgage loan commitment and general loan	
Haeundae Project 2 nd	Korea	-	Real estate Finance	Loans on real estates	Mortgage loan commitment and general loan	
M Square Shihung 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment	
Sungbok 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment	
M Square Osan 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment	

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

2. Scope of consolidation (cont'd)

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, 2015				
	Country	Ownership (%)	Type	Main Business	Type of control
M.D.S. Ocean 3 rd	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment
DM 1 st	Korea	-	Real estate Finance	Loans on real estates	General loan
M Square Sangbong 2 nd	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment
M Square Woodong 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment
MGS 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment
M Square Dadam	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment
M Square Yangsan 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment
Sanbon Master Plaza 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment and general loan
M Square Jocheon 1 st	Korea	-	Real estate Finance	Securitization of loans on real estates	Mortgage loan commitment and general loan
M Square Gunsan 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment
Yongin Sungbok 2 nd	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Aberlour 1 st	Korea	-	Special purpose Company	Securitization of backed asset	Mortgage loan Commitment
LTSB 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Smart Lake 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment
DS Haeundae Project	Korea	-	Real estate Finance	Securitization of loans on real estates	Mortgage loan commitment
MDS Ocean 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment
Dongdaemun H 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment
Nice Penta 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
MDS 1 st	Korea	-	Special purpose Company	Securitization of backed asset	Mortgage loan Commitment
AM1 st	Korea	-	Special purpose Company	Securitization of backed asset	Mortgage loan Commitment
SMK 1 st	Korea	-	Special purpose Company	Securitization of backed asset	Mortgage loan Commitment
SMK 2 nd	Korea	-	Special purpose Company	Securitization of backed asset	Mortgage loan Commitment
Smart R&D 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

2. Scope of consolidation (cont'd)

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, 2015				
	Country	Ownership (%)	Type	Main Business	Type of control
UPS 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Highest Ocean 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Sagik 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Chungju 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Base 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Smart Dongcheon 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Smart Penta 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment
Real benefit	Korea	-	Special purpose Company	Securitization of backed asset	Mortgage loan Commitment
M Square Mia 2 nd	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Smart Sanghyun 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Yongin Sungbok 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Smartup 1 st	Korea	-	Special purpose Company	Securitization of backed asset	Mortgage loan Commitment
Smartup 2 nd	Korea	-	Special purpose Company	Securitization of backed asset	Mortgage loan Commitment
Smartup 3 rd	Korea	-	Special purpose Company	Securitization of backed asset	Mortgage loan Commitment
CD Two 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
SLT 1 st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Genius 1 st	Korea	-	Special purpose Company	Securitization of backed asset	General Loan
RREEF SPEZIAL INVEST GmbH trust of security contract	Korea	100.00	Investment fund and trust	Investment in securities etc	Equity holding
Gold digger equity MMT	Korea	100.00	Investment fund and trust	Investment in securities etc	Equity holding
China Asia Investmant & Consulting Ltd.	Hong Kong	100.00	Corporation	Investment advisory	Equity holding
G New Jump Short-Term Bond Investment Trust 1	Korea	100.00	Investment fund and trust	Investment in securities etc	Equity holding

2. Scope of consolidation (cont'd)

2.1.1 The entities included in or excluded from the scope of consolidation for the year ended December 31, 2015 are as follows:

	Subsidiaries	Reason for scoping of consolidation
Included as consolidation	Eugene Separate Taxation High-Yield PE No.7	(*1)
	Sparx Separate Taxation High-Yield No.1	(*1)
	RREEF SPEZIAL INVEST GmbH trust of security contract	(*1)
	Gold digger equity MMT	(*1)
	MGS 1 st	(*2)
	M Square Dadam	(*2)
	M Square Yangsan 1 st	(*2)
	Sanbon Master plaza 1 st	(*2)
	DM House 1 st	(*2)
	M Square Jochon 1 st	(*2)
	M Square Gunsan 1 st	(*2)
	Yongin Sungbok 2 nd	(*2)
	Aberlour 1 st	(*2)
	LTSB 1 st	(*2)
	Smart Lake 1 st	(*2)
	DS Haeundae Project	(*2)
	MDS Ocean 1 st	(*2)
	Dongdaemun H 1 st	(*2)
	Nice Penta 1 st	(*2)
	MDS 1 st	(*2)
	AM 1 st	(*2)
	SMK 1 st	(*2)
	SMK 2 nd	(*2)
	Smart R&D 1 st	(*2)
	UPS 1 st	(*2)
	Highest Ocean 1 st	(*2)
	M Square Sagik 1 st	(*2)
	M Square Chungju 1 st	(*2)
	M Square Base 1 st	(*2)
	Smart Dongcheon 1 st	(*2)
	Smart Penta 1 st	(*2)
	Real benefit	(*2)
	M Square Mia 2 nd	(*2)
	Smart Sanghyun 1 st	(*2)
	Yongin Sungbok 1 st	(*2)
	Smartup 1 st	(*2)
	Smartup 2 nd	(*2)
	Smartup 3 rd	(*2)
	CD Two 1 st	(*2)
	SLT 1 st	(*2)
	Genius 1 st	(*2)

2. Scope of consolidation (cont'd)

2.1.1 The entities included in or excluded from the scope of consolidation for the year ended December 31, 2015 are as follows:(cont'd)

Excluded from consolidation	Subsidiaries	Reason for scoping of consolidation
	Gyeongsan SG	(*3)
	Eugene Separate Taxation High-Yield PE No.6	(*3)
	Kiwoom Separate Taxation High-Yield No.1	(*3)
	Eastspring Separate Taxation High-Yield PE No.1	(*3)
	Heungkuk High-Class Private Equity Fund No.8	(*3)
	Hyundai Separate Taxation High-Yield PE No.3	(*3)
	Eastspring Separate Taxation High-Yield Private Investment Trust No.2	(*3)
	MDS Project 1st	(*3)
	PNK Partners	(*3)
	LM Hapiness	(*3)
	Ansung SG	(*3)
	DM House 1 st	(*3)
	I'M Investment & Securities Co., Ltd.	(*4)

(*1) Classified as a structured entity for the purpose of collecting funds from investors to obtain and distribute returns from underlying assets included in the consolidation scope, considering the Controlling Company 1) has the power over the investee; 2) is exposed, or has rights, to variable returns from its involvement with the investee and 3) has the ability to use its power to affect its return.

(*2) The entities was established to operate mortgage loan. The Group has power to operate business and is exposed to the risk from fluctuation of their profits.

(*3) The Group lost control of a subsidiary due to liquidation of entities and the end of transaction by loan repayment.

(*4) Excluded from consolidation due to merger with Meritz Securities.

2.1.2 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 bonds with ratings of BBB+ or under in accordance with the related laws and regulations.

The acquisition dates and the 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	90.01
Yurie Separate Taxation High-Yield PE No.1	September 12, 2014	90.23
Kiwoom Separate Taxation High-Yield Private Investment Trust No.2	October 24, 2014	90.18
Daishin Separate Taxation High-Yield Private Investment Trust No.2	October 27, 2014	75.07
Sparx Separate Taxation High-Yield Private Investment Trust No.1	December 2, 2015	95.24

2.1.3 Capstone Private MBS Real Estate Investment Trust No.2 and No.3

Capstone Private Equity MBS Real Estate Investment Trust No.2 and No.3 are the collective investment vehicles that invest more than 50% of funds in mortgage backed securities (MBS). The acquisition dates and the ownership of the Group are as follows.

Subsidiaries	Acquisition date	Ownership (%)
Capstone Private Mbs Real Estate Investment Trust No.2	June 20, 2014	100.00
Capstone Private Mbs Real Estate Investment Trust No.3	November 18, 2014	100.00

2. Scope of consolidation (cont'd)

2.1.4 Smart-S 6th Securitization Specialty Co., Ltd. and other entities

The entities specializing in securitization engage in the issuance and redemption of asset backed securities through the transfer, management, operation and disposition of non-performing loans under the laws of asset securitization. The Group is a shareholder with the right of residuary estate and owns all asset backed securities issued by the entities.

2.1.5 Meritz Securitization Specialty Co., Ltd.

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

2.1.6 M Square Sungsu 1st other structured entities

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

2.1.7 China Asia Investment & Consulting Ltd.

On January 4, 2011, it was established to engage in investment advisory business in Hong Kong, and the Group owns 100% shares.

2.1.8 G New Jump Short-Term Bond Investment Trust No.1

It is a collective investment vehicle established on May 19, 1998, and has invested in corporate bonds. During the Korean currency crisis, IM investment & securities Co., Ltd. repurchased the collective investment securities issued by the trust from the beneficiaries owing to the insolvency of bonds and the Group owns 100% shares of it.

2.1.9 RREEF SPEZIAL INVEST GmbH trust of securities contract

The Group consigned government and public bonds to NH Bank for 5 years from June 2, 2015 to provide as collateral, and designated first-party beneficiary as the secured party.

2.1.10 Gold digger equity MMT

To acquire RCPS of Doosan Infracore Bobcat Holdings, the Group entered into a trust agreement with Hungkuk Life Insurance in August 2015 28.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

2. Scope of consolidation (cont'd)

2.2 The summary of financial information in its consolidated subsidiaries as of December 31, 2015 and 2014 is as follows (Korean won in thousands):

Investee	December 31, 2015			
	Assets	Liabilities	Operating income	Net income (loss)
China Asia Investment & Consulting Ltd.	₩ 208,094	₩ 4,835	₩ -	₩ (43,837)
G New Jump Short-Term Bond Investment Trust No.1	959,588	14	35,336	35,227
RREEF SPEZIAL INVEST GmbH trust of securities contract	1,895,960	-	10,495	10,495
Gold digger equity MMT	55,974,625	-	16,625	16,625
Eugene Separate Taxation High-Yield PEF No.2	12,207,796	4,642	7,869,678	7,193,632
Eugene Separate Taxation High-Yield PEF No.7	49,248,169	49,299	2,573,516	1,437,125
Eugene Separate Taxation High-Yield PEF No.1	39,860,057	9,065	12,011,547	10,883,989
Kiwoom Separate Taxation High-Yield Private Investment Trust No. 2	54,788,581	35,493	7,565,839	6,105,648
Daishin Separate Taxation High-Yield Private Investment Trust No. 2	41,676,596	25,712	11,980,434	10,734,392
Sparx Separate Taxation High-Yield Private Investment Trust No.1	21,094,052	7,075	94,052	86,977
Capstone Private MBS Real Estate Investment Trust No. 2	3,189,533	182,685	4,000,219	3,828,197
Capstone Private MBS Real Estate Investment Trust No. 3	5,310,144	301,604	4,252,355	4,085,804
Smart-S 6th Securitization Specialty Co., Ltd.	2,912,299	7,778,704	2,637	(895,387)
Smart-S 8th Securitization Specialty Co., Ltd.	16,503	7,649,813	744,523	(1,150,091)
Smart-S 10th Securitization Specialty Co., Ltd.	1,188,620	3,147,541	2,499,775	1,138,052
Meritz Securitization Specialty Co., Ltd.	880,828	-	22,180	11,533
M Square Seongsoo 1st and other structured entities	1,670,599,681	1,685,093,358	69,625,543	(5,291,875)

(*) Financial information of Meritz Securitization Specialty Co., Ltd. is the amounts of its financial statements withdrawn its finance leases securitization.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

2. Scope of consolidation (cont'd)

2.2 The summary of financial information in its consolidated subsidiaries as of December 31, 2015 and 2014 is as follows (Korean won in thousands):

Investee	December 31, 2014				
	Assets	Liabilities	Operating income	Net income (loss)	
I'M Investment & Securities Co., Ltd. (*1)	₩ 562,250,693	₩ 178,761,440	₩ 538,715,841	₩ 19,874,435	
Heungkuk High-Class Private Equity Fund No. 8	3,115,489	385	1,024,757	979,186	
Eugene Separate Taxation High-Yield PE No. 2	70,217,808	25,313	4,034,047	2,927,129	
Eugene Separate Taxation High-Yield PE No. 6	51,582,180	18,579	2,720,262	1,860,273	
Kiwoom Separate Taxation High-Yield No. 1	67,487,171	49,537	3,115,021	2,155,442	
Eastspring Separate Taxation High-Yield PE No. 1	68,820,567	50,119	3,409,003	2,323,692	
Yurie Separate Taxation High-Yield PE No. 1	99,802,438	21,860	1,090,957	510,914	
Hyundai Separate Taxation High-Yield PE No. 3	134,824,104	87,629	2,063,520	837,340	
Kiwoom Separate Taxation High-Yield Private Investment Trust No. 2	48,388,663	26,247	295,858	(26,853)	
Eastspring Separate Taxation High-Yield Private Investment Trust No. 2	27,085,242	19,334	229,335	85,047	
Daishin Separate Taxation High-Yield Private Investment Trust No. 2	105,642,184	68,494	659,099	(504,825)	
Capstone Private MBS Real Estate Investment Trust No. 2	7,829,800	34,827	1,187,736	1,121,766	
Capstone Private MBS Real Estate Investment Trust No. 3	8,618,929	12,794	66,295	6,529	
Smart-S 6th Securitization Specialty Co., Ltd.	7,930,112	11,901,130	46	(1,343,409)	
Smart-S 8th Securitization Specialty Co., Ltd.	13,205,802	19,689,020	172	(1,713,778)	
Smart-S 10th Securitization Specialty Co., Ltd.	8,071,794	11,168,767	2,042,644	(1,255,188)	
Meritz Securitization Specialty Co., Ltd. (*2)	869,422	-	376,571	(253,476)	
MDS Project 1 st and 21 structured entities	704,346,799	713,524,972	28,201,454	(7,496,333)	

(*1) The condensed financial information of I'M Investment & Securities Co., Ltd. is consistent with the consolidated financial statements of I'M Investment & Securities Co., Ltd. and its two subsidiaries. Operating income and net income include amounts before the date of acquisition, and there is no operating income or net income reflected in the Group's consolidated financial statements for the years ended December 31, 2015.

(*2) Financial information of Meritz Securitization Specialty Co., Ltd. is the amounts of its financial statements withdrawn its finance leases securitization.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

3. Unconsolidated structured entities

3.1 Details of the nature of the Group's interests in unconsolidated structured entities as of December 31, 2015 are as follows :

Type	Purposes	Financing method	Controlling type
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, 2015 are as follows (Korean won in thousands):

Classification	Special purpose company	Real estate finance	Investment fund and trust
Total assets of unconsolidated structured entities	₩ 2,011,864,537	₩ 642,776,088	₩ 575,799,179
Assets:			
Loans receivable	20,406,569	114,198,711	-
Securities	33,805,762	-	83,693,769
	₩ 54,212,331	₩ 114,198,711	₩ 83,693,769
Liabilities:			
Deposits	-	8,217,060	-
	₩ -	₩ 8,217,060	₩ -
Maximum exposure to loss:			
Holding assets	54,212,331	114,198,711	83,693,769
ABCP purchase commitment	61,059,600	-	-
Unexecuted credit line commitment	-	62,500,000	-
Mortgage loan commitment	111,400,000	-	-
	₩ 226,671,931	₩ 176,698,711	₩ 83,693,769

4. Summary of significant accounting policies

4.1.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Korea International Financial Reporting Standards ("KIFRS") enacted by the Corporate External Audit Law.

The accompanying consolidated financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) 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.

4. Summary of significant accounting policies (cont'd)

4.1.1 Basis of preparation (cont'd)

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, 2015 and 2014 except for standards which are effective for the annual periods beginning on or after January 1, 2015.

- **Amendments to KIFRS 1019 Defined Benefit Plans: Employee Contributions**

KIFRS 1019 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after July 1, 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle

These improvements are effective from July 1, 2014 and the Group has applied these amendments for the first time in these consolidated financial statements.

- **K-IFRS 1102 Share-based payment**

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

The definitions above conform with the method the Group used to identify performance condition and condition of providing service which are the vesting condition, and thus these amendments do not have any impact on the Group's accounting policies.

- **K-IFRS 1103 Business combination**

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of KIFRS 1039. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

- **K-IFRS 1108 Operating segment**

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of KIFRS 1108, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

4. Summary of significant accounting policies (cont'd)

- **K-IFRS 1108 Operating segment (cont'd)**

The Group has not applied the aggregation criteria in KIFRS1108.12. The Group hasn't presented the reconciliation of segment assets to total assets and the reconciliation isn't reported to the chief operating decision maker for the purpose of decision making.

- **KIFRS 1024 Related Party Disclosures**

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

Annual Improvements 2011-2013 Cycle

These improvements are effective from July 1, 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

- **KIFRS 1103 Business Combinations**

The amendment is applied prospectively and clarifies for the scope exceptions within KIFRS 1103 that:

- Joint arrangements, not just joint ventures, are outside the scope of KIFRS 1103
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The Group is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

- **KIFRS 1113 Fair Value Measurement**

The amendment is applied prospectively and clarifies that the portfolio exception in KIFRS 1113 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of KIFRS 1039. The Group does not apply the portfolio exception in KIFRS 1113

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 footnote 5.

4.1.2 New and revised IFRSs in issue but not yet effective

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 1109 Financial Instruments**

The KASB issued the final version of *KIFRS 1109 Financial Instruments* that replaces *KIFRS 1039 Financial Instruments: Recognition and Measurement* and all previous versions. *KIFRS 1109* brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. *KIFRS 1109* is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group is in the process of reviewing the impact of standards on its financial statements, plans to adopt the new standard on the required effective date.

4. Summary of significant accounting policies (cont'd)

· **KIFRS 1115 Revenue 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*. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. These amendments are not expected to have impact on the Group's financial statements.

· **Amendments to KIFRS 1111 Joint Arrangements: Accounting for Acquisitions of Interests**

The amendments to *KIFRS 1111* require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant *KIFRS 1103* principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to *KIFRS 1111* to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have an impact on the Group.

· **Amendments to KIFRS 1016 and KIFRS 1038: Clarification of Acceptable Methods of Depreciation and Amortization**

The amendments clarify the principle in *KIFRS 1016* and *KIFRS 1038* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

· **Amendments to KIFRS 1110 and KIFRS 1028: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address the conflict between *KIFRS 1110* and *KIFRS 1028* in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in *KIFRS 1103*, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

4. Summary of significant accounting policies (cont'd)

· Amendments to KIFRS 1001 Disclosure Initiative

The amendments to *KIFRS 1001 Presentation of Financial Statements* clarify, rather than significantly change, existing KIFRS 1001 requirements. The amendments clarify:

- The materiality requirements in KIFRS 1001
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

· Amendments to KIFRS 1110, KIFRS 1112 and KIFRS 1028 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under *KIFRS 1110*. The amendments to *KIFRS 1110* clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to *KIFRS 1110* clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to *KIFRS 1028* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

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. Summary of significant accounting policies (cont'd)

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 putable 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. Investment in an associate

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 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 at the date of the initial transaction and have no exchange differences.

4. Summary of significant accounting policies (cont'd)

4.4.2 Translation of foreign currency transactions and balances at the end of the reporting period(cont'd)

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 at 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 at the reporting date, and their statements of 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 assets

Financial assets within the scope of K-IFRS 1039 *Financial Instruments: Recognition and Measurement* are classified as financial assets designated at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition.

4.6.1 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 at fair value through profit or loss upon initial recognition. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the short-term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by KIFRS 1039. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognized in finance income or finance cost in the statement of comprehensive income. The Group designated DLS, separate deposit from investors and some other financial assets as financial assets at FVTPL.

4.6.2 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets designated at available-for-sale item, and are not classified as loans and receivables, held-to-maturity financial assets or financial assets designated at fair value through profit or loss. They are measured at fair value and their valuation gains and losses are recognized in equity as other comprehensive income. The equity securities, whose active market values are not available and fair values cannot be reliably measured, are valued at acquisition cost. Accumulated other comprehensive income previously recognized in equity is recognized in the statement of comprehensive income when the investment is disposed of or impairment loss for the investment is recognized. Dividends earned whilst holding available-for-sale financial assets are recognized in the statement of comprehensive income when the right of the payment has been established.

4. Summary of significant accounting policies (cont'd)

4.6.3 Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method ("EIR"). The EIR amortization is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognized in finance costs in the statement of comprehensive income. There is no held-to-maturity assets as of December 31, 2015 and 2014.

4.6.4 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the EIR, less allowance for possible loan losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statements of comprehensive income.

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 clientel 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 Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of the Group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- 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 the Group's 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.

4. Summary of significant accounting policies (cont'd)

4.9 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. A significant or prolonged decline in the fair value of an investment in available-for-sale financial assets below its cost is also objective evidence of impairment. If any such evidence exists in the available-for-sale financial assets, the amount of the cumulative loss that is the difference between the acquisition cost and current fair value deducted the impairment loss on that financial asset previously recognized in profit or loss is recognized in the statement of comprehensive income. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

Furthermore, the losses on loans and receivables are identified as gains and losses for the current term using allowance for the account and if the objective evidence of the impairment exists, they are measured as the present value on future cash flow.

4.10 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.

4.10.1 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 upto 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.

4.10.2 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.

4. Summary of significant accounting policies (cont'd)

4.10.2 Cash flow hedges (cont'd)

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.

4.10.3 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.

4.11 '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.

4.12 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.

4.13 Fees and commission income

The Group earns fees and commission income from a diverse range of services it provides to its customers. Fees and commissions income from financial services are accounted for based on the related accounting standards of financial instruments and the purpose of such fees and commissions. Fees and commissions income are accounted for as follows:

- Fees earned for the provision of services over a period of time are accrued over that period using the straight line method.
- Fees arising from providing significant transaction services for a third party are recognized on completion of the transaction services.
- Fees which are regarded as the part of the interest of financial instruments are recognized using the EIR.

4.14 Dividend income

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

4. Summary of significant accounting policies (cont'd)

4.15 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.

4.16 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:

	Years
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.

4.17 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.

Land is not depreciated. The estimated useful lives of buildings are as follows:

	Depreciation method	Years
Buildings	Straight-line method	40

4.18 Intangible assets

4.18.1 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. Summary of significant accounting policies (cont'd)

4.18.2 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.

4.19 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.

4.20 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.

At the commencement of the lease term, lessees shall recognize finance leases as assets and liabilities in their statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognized as an asset.

Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned.

Minimum lease payments, excluding guaranteed residual value, under an operating lease shall be recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. Operating lease assets are depreciated over expected useful lives (3 years ~ 5 years).

4. Summary of significant accounting policies (cont'd)

4.21 Retirement benefits

4.21.1 Defined benefit pension plans

The Group classifies all pension plans under defined benefit pension plans ("DB plan") except for 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 a 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.

4.21.2 Defined contribution pension plans

As the Group operates a defined contribution pension plans ("DC plan"), the amount of contribution that the Group has to pay is recognized under current expense as employee benefit expense.

4.22 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. Summary of significant accounting policies (cont'd)

4.23 Recognition and measurement of financial liabilities

Financial liabilities within the scope of K-IFRS 1039 are classified as financial liabilities at fair value through profit or loss, borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

4.23.1 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 at 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. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by K-IFRS 1039. Separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held-for-trading are recognized in the statement of comprehensive income.

4.23.2 Borrowings and debentures

After initial recognition, interest bearing deposits, borrowings and debentures are subsequently measured at amortized cost using the EIR. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statement of comprehensive income.

4.23.3 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.

4.24 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. Summary of significant accounting policies (cont'd)

4.24 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.

4.25 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.

4.26 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.

4.27 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.

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 Allowance for possible loan losses

The Group assesses at each reporting date whether there is objective evidence that a loan is impaired. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows, which is discounted using the initial effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income.

The Group first assesses whether objective evidence of impairment exists for individual loan that is significant (individual assessment). If the Group determines that no objective evidence of impairment exists for an individually assessed loan, the Group includes the loan in a company of loans with similar credit risk characteristics and collectively assesses them for impairment (collective assessment).

5. Significant judgements and accounting estimates (cont'd)

5.1 Allowance for possible loan losses (cont'd)

When an individual loan is impaired, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows (including estimated future cash flows from its collateral). In collective assessments, the amount of the loss is statistically evaluated using the Group's historical loss data.

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 Impairment losses on available-for-sale equity instruments

The Group assesses its equity securities classified as available-for-sale assets at the end of each reporting period whether there is any indication that an asset may be impaired.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

When the fair value below the cost of available-for-sale equity instruments is significant or prolonged, the Group recognizes impairment subsequently and reclassifies previous gain or loss that has been recognized in other comprehensive income to profit or loss.

5.5 Surtax on undistributed corporate earnings

The Group shall pay an additional surtax where the use of corporate earnings on qualifying investments, wage increase and dividend payments fall below a certain portion of its taxable income for 3 years from 2015. As the Group considers the surtax on its undistributed earnings when computing its corporate income tax, the Group's income tax may change arising from changes in investment, wage growth, or dividend payouts.

6. Operating segment information

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

- a) Securities business: Brokerage service, proprietary trading and underwriting of securities
- b) 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
- c) Head office : Head office segment exclude segments above
- d) Others: The proportion of operating segment of the consolidated subsidiaries was not important in terms of the Group.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

6. Operating segment information (cont'd)

The financial information of the operating segments for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015				Total
	Securities business	Merchant banking	Head Office	Others	
Total revenue	₩ 645,682,785	₩ 356,965,829	₩ 2,164,229,145	₩ 157,535,428	₩ 3,245,282,521
Total expense	(490,390,787)	(164,259,243)	(2,118,905,930)	(90,901,275)	(2,838,793,886)
Income (loss) before income tax expense	155,291,998	192,706,586	45,323,215	66,634,153	406,488,635
Income tax expense (*1)	(59,299,094)	(45,933,412)	(10,803,211)	(231)	(119,151,903)
Net income (loss)	₩ 95,992,904	₩ 146,773,174	₩ 34,520,004	₩ 66,633,922	₩ 287,336,732
Assets (*2)	9,308,668,381	3,565,614,373	-	1,961,130,297	14,428,668,628
Liabilities (*2)	7,897,314,250	3,246,345,136	-	1,704,289,841	12,710,104,382
	Year ended December 31, 2014				Total
	Securities business	Merchant banking	Head Office	Others	
Total revenue	₩ 395,398,867	₩ 248,555,086	₩ 821,851,012	₩ 82,395,571	₩ 1,541,899,524
Total expense	(307,221,655)	(142,860,760)	(850,642,959)	(66,868,428)	(1,363,140,168)
Income (loss) before income tax expense	88,177,212	105,694,326	(28,791,947)	15,527,143	178,759,356
Income tax expense (*1)	(20,906,535)	(25,059,786)	6,826,479	(68,343)	(34,054,945)
Net income (loss)	₩ 67,270,677	₩ 80,634,540	₩ (21,965,468)	₩ 15,458,800	₩ 144,704,411
Assets (*2)	7,444,159,687	3,413,089,404	-	1,596,399,410	11,783,775,447
Liabilities (*2)	6,622,957,472	3,193,037,730	-	752,777,963	10,706,643,935

(*1) The amount is allocated using the ratio of net income before income tax of each segment for 2015 and 2014.

(*2) The total assets and liabilities represent the amount as of December 31, 2015 and 2014.

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

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

6. Operating segment information (cont'd)

The geographic operating revenue information and the geographic non-current assets information for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015		Year ended December 31, 2014	
	Domestic	Overseas	Domestic	Overseas
Operating revenue	₩ 3,240,822,368	₩ 226,565	₩ 1,503,856,592	₩ 1,024,757
Non-current assets (*)	171,803,662	-	179,995,244	-

(*) Represents the amount as of December 31, 2015 and 2014.

7. Cash and due from banks

Cash and due from banks as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015	December 31, 2014
Cash and cash equivalents:		
Cash on hand	-	58
Current deposits	11,020,912	9,455,549
Demand deposits	23,869,983	27,950,504
Foreign currency deposit	1,628,459	1,695,625
MMDA	109,500,000	42,300,000
Others	400,206,569	350,289,717
	<u>546,225,923</u>	<u>431,691,453</u>
Due from banks in Korean won:		
Reserve for claims of customers		
Deposits(*)	37,000,000	2,100,000
Guarantee deposits for securities		
Borrowed	9,059,110	14,380,000
Guarantee deposits for trading futures and options	38,723,763	24,174,000
Guarantee deposits	-	300,000
Long - term deposits	2,000,000	7,100,000
Restricted deposits etc.	129,000	113,300
Other deposits	12,930,485	2,969,427
	<u>99,842,358</u>	<u>51,136,727</u>
	<u>₩ 646,068,281</u>	<u>₩ 482,828,180</u>

(*) Pursuant to the Law on Capital Market and Financial Investment Services and related regulations, the Group is required to place a deposit after daily calculation 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.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

8. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Book value (Fair value)	
	December 31, 2015	December 31, 2014
Financial assets held for trading:		
Equity securities	₩ 278,575,974	₩ 90,735,839
Debt securities:		
Government and public bonds	2,923,902,109	1,020,843,281
Special purpose bonds	2,077,567,966	3,011,503,313
Corporate bonds	1,212,963,721	1,093,553,397
Collective investment securities	87,937,755	85,191,405
Commercial papers	368,891,602	361,658,272
Asset backed short-term bonds	22,436,864	25,910,812
Foreign currency securities	974,166	1,579,296
	₩ 6,973,250,157	₩ 5,690,975,615
Derivative assets held for trading:		
Interest rate derivatives	112,573,356	148,582,537
Foreign currency derivatives	31,296,123	1,399,794
Equity derivatives	10,620,497	3,968,707
Stock price index derivatives	21,760	1,009,475
Credit	1,071,624	877,977
Others	6,003,095	118,444
Credit risk adjustments	(489,476)	(461,567)
Deferred day 1 profit or loss	887,031	662,402
	₩ 161,984,010	₩ 156,157,769
Financial assets designated at fair value through profit or loss (*1):		
Equity-linked securities	4,180,453	276,089
Derivatives-linked securities	637,855	876,434
Reserve for claims of customers' deposits (trust) (*2)	295,920,714	148,445,272
Others	34,962,539	36,078,229
Credit risk adjustments	(7,576)	(1,662)
Deferred day 1 profit or loss	(193,316)	2,873
	₩ 335,500,669	₩ 185,677,235
	₩ 7,470,734,836	₩ 6,032,810,619

(*1) Equity-linked securities, derivatives-linked securities and reserve for claims of customers' deposits were appointed as "Financial assets at fair value through profit or loss" by exercising the fair value option.

(*2) Pursuant to the Law on Capital Market and Financial Investment Services and related regulations, the Group is required to place a deposit after daily calculation 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.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

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

Debt securities of financial assets classified held-for-trading as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015			December 31, 2014		
	Face value	Acquisition cost	Fair value	Face value	Acquisition cost	Fair value
Debt securities:						
Government and public bonds	₩ 2,846,915,452	₩ 2,923,976,468	₩ 2,923,902,109	₩ 988,965,792	₩ 1,019,844,188	₩ 1,020,843,281
Special purpose bonds	2,054,544,978	2,077,145,127	2,077,567,966	3,002,725,254	3,004,476,025	3,011,503,313
Corporate bonds	1,210,142,447	1,213,834,901	1,212,963,721	1,088,060,000	1,092,635,702	1,093,553,397
	₩ 6,111,602,877	₩ 6,214,956,496	₩ 6,214,433,796	₩ 5,079,751,046	₩ 5,116,955,915	₩ 5,125,899,991
Commercial papers	368,025,000	368,025,000	368,891,602	360,940,000	359,814,773	361,658,272
Asset backed short-term bonds	22,400,000	22,400,000	22,436,864	25,900,000	25,900,000	25,910,812
	₩ 6,502,027,877	₩ 6,605,381,496	₩ 6,605,762,262	₩ 5,466,591,046	₩ 5,502,670,688	₩ 5,513,469,075

Derivative embedded securities of financial assets classified held-for-trading as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015			December 31, 2014		
	Nominal value	Issue value	Fair value	Nominal value	Issue value	Fair value
Equity linked securities	₩ 4,744,000	₩ 4,744,000	₩ 4,180,453	₩ 429,000	₩ 429,000	₩ 276,089
Derivative linked securities	1,475,000	1,475,000	637,855	1,525,000	1,525,000	876,434
	₩ 6,219,000	₩ 6,219,000	₩ 4,818,308	₩ 1,954,000	₩ 1,954,000	₩ 1,152,523

9. Available-for-sale financial assets

Available-for-sale financial assets as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Book value (Fair value)	
	December 31, 2015	December 31, 2014
Equity securities and equity investment (*)	₩ 252,073,398	₩ 398,040,607
Debt securities:		
Government and public bonds	85,404,225	73,165,839
Special purpose bonds	200,381,207	160,256,406
Corporate bonds	83,891,970	72,844,313
Collective investment securities	84,710,716	64,240,994
Commercial papers	20,697,421	911,192
Others	6,262,079	8,279,070
	₩ 733,421,016	₩ 777,738,421

(*) 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.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

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

Valuation gain (loss) on valuation of available-for-sale financial assets as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015				
	Acquisition cost	Amortized cost	Accumulated impairment loss	Fair value	Gain on valuation
Equity securities:					
Marketable equity securities	₩ 56,498,809	₩ 56,498,809	₩ (50,091)	₩ 51,917,330	₩ (4,531,388)
Non-marketable equity securities	114,727,359	114,727,359	(3,558,879)	200,156,068	88,987,588
	171,226,168	171,226,168	(3,608,970)	252,073,398	84,456,200
Debt securities:					
Government and public bonds	81,876,736	81,876,736	-	85,404,225	3,527,489
Special purpose bonds	200,499,003	200,369,814	-	200,381,207	11,393
Corporate bonds	84,059,116	84,089,240	(1,475,790)	83,891,970	1,278,520
	366,434,855	366,335,790	(1,475,790)	369,677,402	4,817,402
Collective investment securities	90,369,206	90,369,206	(7,984,921)	84,710,716	2,326,431
Commercial paper	20,682,090	20,682,090	-	20,697,421	15,331
Foreign currency securities	94,960	94,960	(94,960)	-	-
Other securities	6,262,079	6,262,079	-	6,262,079	-
	₩ 655,069,358	₩ 654,970,293	₩ (13,164,641)	₩ 733,421,016	₩ 91,615,364
	December 31, 2014				
	Acquisition cost	Amortized cost	Accumulated impairment loss	Fair value	Gain on valuation
Equity securities:					
Marketable equity securities	₩ 61,685,618	₩ 61,685,618	₩ (229,492)	₩ 136,168,003	₩ 74,711,877
Non-marketable equity securities	176,437,579	176,437,579	(2,899,631)	261,872,604	88,334,656
	238,123,197	238,123,197	(3,129,123)	398,040,607	163,046,533
Debt securities:					
Government and public bonds	71,509,410	71,509,410	-	73,165,839	1,656,429
Special purpose bonds	160,033,003	160,029,266	-	160,256,406	227,140
Corporate bonds	72,663,463	72,332,784	(966,272)	72,844,313	1,477,801
	304,205,876	303,871,460	(966,272)	306,266,558	3,361,370
Collective investment securities	77,266,020	77,266,020	(15,483,266)	64,240,994	2,458,240
Commercial paper	911,192	911,192	-	911,192	-
Foreign currency securities	94,960	94,960	(94,960)	-	-
Other securities	8,279,070	8,279,070	-	8,279,070	-
	₩ 628,880,315	₩ 628,545,899	₩ (19,673,621)	₩ 777,738,421	₩ 168,866,143

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

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

Changes in valuation gain (loss) on valuation available-for-sale financial assets for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015			
	Beginning balance	Reclassification	Gain on valuation	Ending balance
Equity securities:				
Marketable equity securities	₩ 74,711,877	₩ (75,056,772)	₩ (4,186,493)	₩ (4,531,388)
Non-marketable equity securities	88,334,656	(656,293)	1,309,225	88,987,588
	<u>163,046,533</u>	<u>(75,713,065)</u>	<u>(2,877,268)</u>	<u>84,456,200</u>
Debt securities				
Government and public bonds	1,656,429	-	1,871,060	3,527,489
Special purpose bonds	227,140	(194,491)	(21,256)	11,393
Corporate bonds	1,477,801	(404,070)	204,789	1,278,520
	<u>3,361,370</u>	<u>(598,561)</u>	<u>2,054,593</u>	<u>4,817,402</u>
Collective investment securities	2,458,240	(438,621)	306,812	2,326,431
Commercial paper	-	-	15,331	15,331
	<u>168,866,143</u>	<u>(76,750,247)</u>	<u>(500,532)</u>	<u>91,615,364</u>
Income tax effect	(40,375,894)	18,350,984	(71,498)	(22,096,408)
	<u>₩ 128,490,249</u>	<u>₩ (58,399,263)</u>	<u>₩ (572,030)</u>	<u>₩ 69,518,956</u>
	Year ended December 31, 2014			
	Beginning balance	Reclassification	Gain on valuation	Ending balance
Equity securities:				
Marketable equity securities	₩ (517,981)	₩ 515,433	₩ 74,714,425	₩ 74,711,877
Non-marketable equity securities	89,028,045	(19,120)	(674,269)	88,334,656
	<u>88,510,064</u>	<u>496,313</u>	<u>74,040,156</u>	<u>163,046,533</u>
Debt securities:				
Government and public bonds	(40,973)	40,973	1,656,429	1,656,429
Special purpose bonds	339,812	(339,375)	226,703	227,140
Corporate bonds	(205,131)	-	1,682,932	1,477,801
	<u>93,708</u>	<u>(298,402)</u>	<u>3,566,064</u>	<u>3,361,370</u>
Collective investment securities	2,011,827	(859,714)	1,306,127	2,458,240
Foreign currency securities	128,011	(128,011)	-	-
	<u>90,743,610</u>	<u>(789,814)</u>	<u>78,912,347</u>	<u>168,866,143</u>
Income tax effect	(21,551,607)	187,581	(19,011,868)	(40,375,894)
	<u>₩ 69,192,003</u>	<u>₩ (602,233)</u>	<u>₩ 59,900,479</u>	<u>₩ 128,490,249</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

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

Residual maturity of debt securities in available-for-sale financial assets as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015			
	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:				
Government and public bonds	₩ -	₩ -	₩ 85,404,225	₩ 85,404,225
Special purpose bonds	200,381,207	-	-	200,381,207
Corporate bonds	-	83,891,970	-	83,891,970
Commercial paper	20,242,271	455,150	-	20,697,421
	<u>₩ 220,623,478</u>	<u>₩ 84,347,120</u>	<u>₩ 85,404,225</u>	<u>₩ 390,374,823</u>

	December 31, 2014			
	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:				
Government and public bonds	₩ -	₩ -	₩ 73,165,839	₩ 73,165,839
Special purpose bonds	160,256,406	-	-	160,256,406
Corporate bonds	26,459,998	46,384,315	-	72,844,313
Commercial paper	227,798	683,394	-	911,192
	<u>₩ 186,944,202</u>	<u>₩ 47,067,709</u>	<u>₩ 73,165,839</u>	<u>₩ 307,177,750</u>

10. Investments in associates

Details of investments in associates as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

Associates	Location	Closing month	Ownership	Book value	
				December 31, 2015	December 31, 2014
Saengbo Wootoo Shinyoung Housing CR-Reit Co., Ltd. II (*)	KOREA	December	16.36%	₩ 25,000,000	₩ 25,000,000
Cabiroth Investment Consulting (Shanghai) Co., Ltd.	CHINA	December	63.63%	186,159	207,861
				<u>₩ 25,186,159</u>	<u>₩ 25,207,861</u>

(*) Reclassified as an associate due to holding 21.58% of voting rights over the associate.

Changes in investments in associates for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

Year ended December 31, 2015						
Beginning Balance	Acquisition	Impairment	Other	Increase due to Business combination	Ending balance	
₩ 25,207,861	₩ -	₩ (34,243)	₩ 12,541	₩ -	₩ 25,186,159	

Year ended December 31, 2014						
Beginning Balance	Acquisition	Disposal	Investee's net income	Increase due to Business combination	Ending balance	
₩ -	₩ 25,000,000	₩ -	₩ -	₩ 207,861	₩ 25,207,861	

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

10. Investments in associates (cont'd)

Condensed financial statements as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

Associates	December 31, 2015			
	Asstes	Liabilities	Revenue	Net Profit(loss)
Saengbo Wootoo Shinyoung Housing CR-Reit Co.,Ltd. II	₩ 388,126,330	₩ 242,823,369	₩ 210,055	₩ (4,055,879)
Cabiroth Investment Consulting(Shanghai) Co., Ltd.	368,554	-	111,568	88,675
	<u>₩ 388,494,884</u>	<u>₩ 242,823,369</u>	<u>₩ 321,623</u>	<u>₩ (3,967,204)</u>

Associates	December 31, 2014			
	Asstes	Liabilities	Revenue	Net Profit(loss)
Saengbo Wootoo Shinyoung Housing CR-Reit Co.,Ltd. II	₩ 377,285,111	₩ 227,927,364	₩ 2,217	₩ (2,271,283)
Cabiroth Investment Consulting(Shanghai) Co., Ltd.	271,718	-	-	(45,962)
	<u>₩ 377,556,829</u>	<u>₩ 227,927,364</u>	<u>₩ 2,217</u>	<u>₩ (2,317,245)</u>

11. Loans and CMA

Details of loans and CMA as of December 31, 2015 and 2014 consist of the following (Korean won in thousands):

	December 31, 2015		
	Face value	Allowance for possible loan losses	Book value
Loans:			
Call loans	₩ 1,424,923	₩ -	₩ 1,424,923
RP purchased	432,200,000	-	432,200,000
Broker's loan	438,243,473	-	438,243,473
Loans to employees	3,148,248	(69,746)	3,078,502
Loans	3,446,919,425	(117,991,822)	3,328,927,603
Notes discounted	178,300,000	(340,284)	177,959,716
Loans purchased	36,597,083	(6,706,712)	29,890,371
Privately-placed corporate bonds	50,425,997	(1,804,136)	48,621,861
Payment on behalf of another company	7,311,254	(7,266,561)	44,693
Discount present value	-	-	-
Deferred loan fees	(10,544,957)	-	(10,544,957)
	<u>₩ 4,584,025,446</u>	<u>₩ (134,179,261)</u>	<u>₩ 4,449,846,185</u>
CMA:			
CMA-notes discounted	₩ 55,000,000	₩ (179,751)	₩ 54,820,249

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

11. Loans and CMA (cont'd)

	December 31, 2014		
	Face value	Allowance for possible loan losses	Book value
Loans:			
Call loans	₩ 14,432,485	₩ -	₩ 14,432,485
RP purchased	413,900,000	-	413,900,000
Broker's loan	290,534,688	-	290,534,688
Loans to employees	3,749,885	(122,700)	3,627,185
Loans	2,530,071,068	(108,882,711)	2,421,188,357
Notes discounted	176,100,000	(542,155)	175,557,845
Loans purchased	46,803,476	(6,414,014)	40,389,462
Privately-placed corporate bonds	67,118,532	(5,670,207)	61,448,325
Payment on behalf of another company	7,043,065	(6,956,078)	86,987
Discount present value	(200,112)	-	(200,112)
Deferred loan fees	(5,339,843)	-	(5,339,843)
	<u>₩ 3,544,213,244</u>	<u>₩ (128,587,865)</u>	<u>₩ 3,415,625,379</u>
CMA:			
CMA-notes discounted	<u>₩ 58,100,000</u>	<u>₩ (196,937)</u>	<u>₩ 57,903,063</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 140~160% 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.

Residual maturity of debt securities as of December 31, 2015 and 2014 is as follows (Korean won in thousands):

	December 31, 2015	December 31, 2014
No later than 1 year	₩ 2,950,912,724	₩ 1,819,950,529
After 1 year but no later than 3 years	1,336,486,309	1,418,306,230
After 1 year but no later than 5 years	162,234,607	198,410,866
After 5 years	144,936,764	113,085,574
	<u>₩ 4,594,570,404</u>	<u>₩ 3,549,753,199</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

11. Loans and CMA (cont'd)

Changes in allowance for possible loan losses for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015		December 31, 2014	
Beginning balance	₩	128,784,802	₩	110,672,304
Collection of loans written-off in prior periods		-		49
Utilized		(5,858,864)		-
Transfer (*)		515,824		96,000
Business combination		-		1,483,218
Unwinding effect		(3,660,923)		(3,368,956)
	₩	119,780,839	₩	108,882,615
Provision for allowance		14,578,173		19,902,187
	₩	134,359,012	₩	128,784,802

(*) It was the amount transferred from provision to allowance for doubtful accounts, or from allowance for doubtful account to provision for the years ended December 31, 2015 and 2014.

Changes in incidental income or incident expense of deferred loans for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015			
	Beginning balance	Income or expense		Ending balance
		incurred	Depreciation	
Incidental income	₩ (7,434,236)	₩ (17,072,744)	₩ 12,997,846	₩ (11,509,134)
Incidental expense	2,094,393	19,992	(1,150,209)	964,176
	₩ (5,339,843)	₩ (17,052,752)	₩ 11,847,637	₩ (10,544,958)

	Year ended December 31, 2014			
	Beginning balance	Income or expense		Ending balance
		incurred	Depreciation	
Incidental income	₩ (9,625,434)	₩ (13,529,357)	₩ 15,720,555	₩ (7,434,236)
Incidental expense	1,861,362	966,447	(733,416)	2,094,393
	₩ (7,764,072)	₩ (12,562,910)	₩ 14,987,139	₩ (5,339,843)

Gain (loss) related to loans for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015		Year ended December 31, 2014	
Gain on disposal of loans	₩	25,229,847	₩	28,719,777
	₩	25,229,847	₩	28,719,777
Loss on disposal of loans		(181,786)		(316,565)
Provision for doubtful accounts		(14,578,173)		(19,902,187)
	₩	(14,759,959)	₩	(20,218,752)
	₩	10,469,888	₩	8,501,025

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

12. Lease

Details of lease assets for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015				
	Acquisition cost	Allowance for lease	Accumulated depreciation	Provision for loss on disposal of lease	Book value
Financial lease	₩ 477,850,702	₩ (6,315,833)	₩ -	₩ -	₩ 471,534,869
Operating lease	4,548,494	-	(3,396,209)	(22,742)	1,129,543
	<u>₩ 482,399,196</u>	<u>₩ (6,315,833)</u>	<u>₩ (3,396,209)</u>	<u>₩ (22,742)</u>	<u>₩ 472,664,412</u>

	Year ended December 31, 2014				
	Acquisition cost	Allowance for lease	Accumulated depreciation	Provision for loss on disposal of lease	Book value
Financial lease	₩ 612,967,685	₩ (7,105,121)	₩ -	₩ -	₩ 605,862,564
Operating lease	6,225,007	-	(3,855,671)	(31,125)	2,338,211
Advance lease	311,103	-	-	-	311,103
	<u>₩ 619,503,795</u>	<u>₩ (7,105,121)</u>	<u>₩ (3,855,671)</u>	<u>₩ (31,125)</u>	<u>₩ 608,511,878</u>

Details of total lease investment and the present value of minimum financial lease as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015		December 31, 2014	
	Total lease investment	Minimum financial lease	Total lease investment	Minimum financial lease
No later than 1 year	₩ 225,222,812	₩ 217,340,347	₩ 264,024,321	₩ 253,774,989
After 1 year but no later than 5 years	283,336,542	244,230,717	392,827,242	330,469,814
After 5 years	-	-	3,925,839	215,200
	<u>₩ 508,559,354</u>	<u>₩ 461,571,064</u>	<u>₩ 660,777,402</u>	<u>₩ 584,460,003</u>

Unearned interests of financial lease as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015		December 31, 2014	
Total lease investment	₩	508,559,354	₩	660,777,402
Minimum financial lease		477,850,702		612,967,685
Unearned interest	₩	<u>30,708,652</u>	₩	<u>47,809,717</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

12. Lease (cont'd)

Unsecured residual value of financial lease as of December 31, 2015 and 2014 is as follows (Korean won in thousands):

	December 31, 2015		December 31, 2014
₩	5,332,986	₩	14,036,688

The estimated future operating lease revenues as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015		December 31, 2014
No later than 1 year	₩ 325,570	₩	1,003,207
After 1 year but no later than 5 years	-		325,570
	₩ 325,570	₩	1,328,777

Changes in allowance for lease for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015		Year ended December 31, 2014
Beginning balance	₩ 7,105,121	₩	6,601,822
Provision for allowance	-		(452,648)
Unwinding effect	(141,422)		(241,769)
	₩ 6,963,699	₩	5,907,405
Provision for allowance (Reversal of allowance for lease)	(647,866)		1,197,716
	₩ 6,315,833	₩	7,105,121

Gain (loss) related to lease for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015		Year ended December 31, 2014
Interest on financial lease	₩ 36,722,966	₩	41,221,438
Commissions on operating lease	1,002,788		1,966,638
Gain on disposal of lease	1,628,385		1,849,583
Reversal of allowance for doubtful accounts	647,866		-
Others	8,383		86,897
	₩ 40,010,388	₩	45,124,556
Operating lease depreciation	(747,426)		(1,585,701)
Lease commission expense	(483,306)		(995,732)
Loss on disposal of lease	(291,663)		(366,519)
Provision for allowance	-		(1,197,716)
Others	(64,642)		(249,387)
	₩ (1,587,037)	₩	(4,395,055)
	₩ 38,423,351	₩	40,729,501

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

13. Property and equipment

Details of property and equipment as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 59,272,919	₩ -	₩ 59,272,919
Buildings	38,697,660	(8,008,532)	30,689,128
Vehicles	552,635	(308,215)	244,420
Furniture and fixtures	66,123,566	(55,621,581)	10,501,985
Others	591,421	-	591,421
	<u>₩ 165,238,201</u>	<u>₩ (63,938,328)</u>	<u>₩ 101,299,873</u>

	December 31, 2014		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 60,756,336	₩ -	₩ 60,756,336
Buildings	41,282,320	(8,254,984)	33,027,336
Vehicles	456,691	(195,105)	261,586
Furniture and fixtures	59,778,887	(51,233,846)	8,545,041
Others	1,368,403	-	1,368,403
	<u>₩ 163,642,637</u>	<u>₩ (59,683,935)</u>	<u>₩ 103,958,702</u>

Changes in property and equipment for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015						
	Beginning balance	Addition (*1)	Disposal	Depreciation	Transfer (*2)	Other	Ending balance
Land	₩ 60,756,336	₩ -	₩ -	₩ -	₩ (1,483,417)	₩ -	₩ 59,272,919
Buildings	33,027,336	-	-	(999,548)	(1,338,660)	-	30,689,128
Vehicles	261,586	-	-	(113,109)	95,943	-	244,420
Furniture and Fixture	8,545,041	5,642,644	(24,638)	(4,158,467)	-	497,405	10,501,985
Others	1,368,403	18,973	-	(292,128)	-	(503,827)	591,421
	<u>₩ 103,958,702</u>	<u>₩ 5,661,617</u>	<u>₩ (24,638)</u>	<u>₩ (5,563,252)</u>	<u>₩ (2,726,134)</u>	<u>₩ (6,422)</u>	<u>₩ 101,299,873</u>

	Year ended December 31, 2014						
	Beginning balance	Addition (*1)	Disposal	Depreciation	Transfer (*2)	Business combination	Ending balance
Land	₩ 36,533,275	₩ -	₩ -	₩ -	₩ 976,241	₩ 23,246,820	₩ 60,756,336
Buildings	25,375,287	-	-	(851,428)	(132,221)	8,635,698	33,027,336
Vehicles	356,706	-	-	(95,120)	-	-	261,586
Furniture and Fixture	6,948,895	5,525,641	(1,425,800)	(3,825,050)	-	1,321,355	8,545,041
Others	502,021	-	(1,500)	-	-	867,882	1,368,403
	<u>₩ 69,716,184</u>	<u>₩ 5,525,641</u>	<u>₩ (1,427,300)</u>	<u>₩ (4,771,598)</u>	<u>₩ 844,020</u>	<u>₩ 34,071,755</u>	<u>₩ 103,958,702</u>

(*1) An increase of ₩390,304 thousand and ₩478,470 thousand related to provision for restoration cost was included in the acquisition amount of furniture and fixtures for the years ended December 31, 2015 and 2014, respectively.

(*2) Land and buildings are replaced with investment properties based on the change in rental rate.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

13. Property and equipment (cont'd)

Insured tangible assets as of December 31, 2015 are as follows (Korean won in thousands):

Insurance	Insured asset	Insurance company	Insurance coverage
Property insurance	Buildings, etc.	Meritz Fire & Marine Insurance Co., Ltd., etc.	₩ 72,941,849
Computation equipment insurance	Computation equipment, etc.	Meritz Fire & Marine Insurance Co., Ltd.	7,609,354
Automobile insurance	Vehicles	Meritz Fire & Marine Insurance Co., Ltd.	412,550
			₩ 80,963,753

14. Investment property

Details of investment property as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 19,360,454	₩ -	₩ 19,360,454
Buildings	16,995,058	(6,303,224)	10,691,834
	₩ 36,355,512	₩ (6,303,224)	₩ 30,052,288

	December 31, 2014		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 17,877,037	₩ -	₩ 17,877,037
Buildings	14,410,398	(4,664,454)	9,745,944
	₩ 32,287,435	₩ (4,664,454)	₩ 27,622,981

Changes in the net carrying amount of investment properties for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015				
	Beginning balance	Aquisition	Depreciation	Transfer (*)	Ending Balance
Land	₩ 17,877,037	₩ -	₩ -	₩ 1,483,417	₩ 19,360,454
Buildings:					
Acquisition cost	14,410,398	-	-	2,584,660	16,995,058
Accumulated depreciation	(4,664,454)	-	(392,770)	(1,246,000)	(6,303,224)
	₩ 27,622,981	₩ -	₩ (392,770)	₩ 2,822,077	₩ 30,052,288

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

14. Investment property (cont'd)

	Year ended December 31, 2014					
	Beginning balance	Aquisition	Depreciation	Transfer (*)	Business combination	Ending Balance
Land	₩ 9,468,445	₩ 6,801,853	₩ -	₩ (976,241)	₩ 2,582,980	₩ 17,877,037
Buildings:						
Acquisition cost	11,286,028	1,614,199	-	550,649	959,522	14,410,398
Accumulated depreciation	(3,948,380)	-	(297,647)	(418,427)	-	(4,664,454)
	<u>₩ 16,806,093</u>	<u>₩ 8,416,052</u>	<u>₩ (297,647)</u>	<u>₩ (844,019)</u>	<u>₩ 3,542,502</u>	<u>₩ 27,622,981</u>

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

The fair value of the land and buildings provided by an independent property appraisal firm is amounted to ₩27,787,365thousand and ₩14,856,763thousand as of December 31, 2015, respectively.

The rental income and depreciation arising from the Group's investment properties for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015		Year ended December 31, 2014	
Rental income	₩	1,480,426	₩	714,953
Depreciation		(392,770)		(297,647)

15. Intangible assets

Intangible assets as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value
Software	₩ 43,034,773	₩ (30,291,018)	₩ -	₩ 12,743,755
Membership	15,946,156	-	(4,464,625)	11,481,531
Others	16,396,015	(169,800)	-	16,226,215
	<u>₩ 75,376,944</u>	<u>₩ (30,460,818)</u>	<u>₩ (4,464,625)</u>	<u>₩ 40,451,501</u>

	December 31, 2014			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value
Software	₩ 39,671,993	₩ (23,270,466)	₩ -	₩ 16,401,527
Membership	15,905,276	-	(1,898,956)	14,006,320
Others	18,005,713	-	-	18,005,713
	<u>₩ 73,582,982</u>	<u>₩ (23,270,466)</u>	<u>₩ (1,898,956)</u>	<u>₩ 48,413,560</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

15. Intangible assets (cont'd)

Changes in intangible assets for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015					
	Beginning balance	Addition	Amortization	Impairment loss (*)	Others	Ending balance
Software	₩ 16,401,527	₩ 1,624,688	₩ (6,596,344)	₩ -	₩ 1,313,884	₩ 12,743,755
Membership	14,006,320	40,880	-	(2,565,669)	-	11,481,531
Others	18,005,713	119,680	(591,716)	-	(1,307,462)	16,226,215
	₩ 48,413,560	₩ 1,785,248	₩ (7,188,060)	₩ (2,565,669)	₩ 6,422	₩ 40,451,501

	Year ended December 31, 2014						
	Beginning balance	Addition	Disposal	Amortization	Impairment loss (*)	Increase due to business combination	Ending balance
Software	₩ 23,972,637	₩ 951,008	₩ (1,325,824)	₩ (7,196,294)	₩ -	₩ -	₩ 16,401,527
Membership	8,827,396	287,568	-	-	(245,692)	5,137,048	14,006,320
Others	13,095,852	-	-	-	-	4,909,861	18,005,713
	₩ 45,895,885	₩ 1,238,576	₩ (1,325,824)	₩ (7,196,294)	₩ (245,692)	₩ 10,046,909	₩ 48,413,560

(*) Impairment loss was recognized due to a significant decrease of recoverable amount of membership in 2015 and 2014.

16. Other assets

Other assets as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015	December 31, 2014
Receivable from proprietary trading	₩ 28,188,124	₩ 36,053,290
Receivable from brokerage	77,661,415	79,197,146
Other receivable	49,467,371	11,926,548
Accrued income	38,319,211	40,404,189
Guarantee deposits	6,016,181	6,152,521
Unsettled spot exchange	107,821,400	-
Unsettled difference	2,404,554	1,428,211
Allowance for possible losses	(4,696,672)	(4,677,667)
Present value discount	(326,738)	(287,764)
	₩ 304,854,846	₩ 170,196,474
Advanced payment	28,742,687	24,922,643
Prepaid expenses	22,781,047	6,372,523
Others	1,752,883	1,663,162
	₩ 53,276,617	₩ 32,958,328
	₩ 358,131,463	₩ 203,154,802

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

16. Other assets (cont'd)

Changes in allowance for other assets for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Beginning balance	₩ 4,677,667	₩ 1,634,684
Written-off	-	(13,452)
Business combination	-	2,822,741
Provision for (reversal of) allowance	19,005	233,694
	₩ 4,696,672	₩ 4,677,667

17. Deposits

Deposits as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015	December 31, 2014
Customers' claims on deposits	₩ 323,290,631	₩ 161,177,758
Guarantee deposit for customers' security trading	283,000	283,000
Leasehold deposits provided	158,133,067	179,360,629
CMA deposits	47,984,195	62,074,978
Notes payable	2,947,535,124	2,883,410,009
Others	1,333,937	1,149,284
	₩ 3,478,559,954	₩ 3,287,455,658
Discounted present value	(14,689,113)	(18,477,013)
	₩ 3,463,870,841	₩ 3,268,978,645

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

18. Financial liabilities fair value through profit or loss

Financial liabilities at fair value through profit or loss as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Book value (fair value)	
	December 31, 2015	December 31, 2014
Financial liabilities held-for-trading:		
Stock	₩ 79,764,851	₩ 61,388,031
Bonds:		
Government bonds	490,643,123	870,858,475
Special purpose bonds	-	30,163,107
Others:	1,291,137	-
	₩ 571,699,111	₩ 962,409,613
Derivatives liabilities held-for-trading:		
Interest	114,940,846	154,346,074
Currency	13,332,353	5,361,110
Stock	2,158,373	26,170
Stock index	25,167	666,280
Others	4,047,279	2,122,634
Credit risk adjustments	(166,656)	(390,908)
	₩ 134,337,362	₩ 162,131,360
Financial liabilities designated at fair value through profit or loss:		
Equity linked securities sold (*)	86,618,863	8,151,746
Derivative linked securities sold (*)	404,798,971	312,900,632
Credit risk value adjustments	(603,324)	(699,280)
Deferred day 1 profit or loss adjustments	(21,684)	(29,342)
	₩ 490,792,826	₩ 320,323,756
	₩ 1,196,829,299	₩ 1,444,864,729

(*) 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 main contract.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

19. Borrowings

Borrowings as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Lender	Interest rate (%)	December 31, 2015	December 31, 2014
Call money	Kookmin Bank and others		₩ -	₩ 35,000,000
Commercial paper	Shinhan Bank and others	1.79~1.80	80,000,000	465,700,000
Commercial Paper (ABCP)		2.30~5.20	642,900,000	79,500,000
Asset backed short-term bonds	KTB Investment & Securities and others	1.76~6.00	859,100,000	800,100,000
Repurchase agreements sold	KSFC and others	1.40~1.75	5,324,808,245	3,598,392,974
Borrowing from KSFC	KSFC	1.89	100,000,000	5,227,420
Others (*)	Meritz Fire & Marine Insurance Co., Ltd.	5.80~6.50	78,250,000	105,000,000
			<u>₩ 7,085,058,245</u>	<u>₩ 5,088,920,394</u>

(*) The subsidiaries of the Company borrowed the amount from Meritz Fire & Marine Insurance Co., Ltd. and Meritz Capital Co., Ltd.

Debentures as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Interest rate (%)	Date of issue	Maturity	December 31, 2015	December 31, 2014
Unwarranted subordinated debentures (*)	6.20	2011.08.18	2017.02.18	₩ 10,100,000	₩ 10,100,000
Unwarranted subordinated debentures	5.44	2012.06.28	2017.12.28	30,000,000	30,000,000
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	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
Discount on debenture issued				(201,400)	(256,392)
				<u>₩ 279,898,600</u>	<u>₩ 279,843,608</u>

(*) A portion of subordinated debentures amounting to ₩39.9billion were redeemed before maturity in 2014.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

20. Provisions

Provisions as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015	December 31, 2014
Reserve for rehabilitation	₩ 1,040,217	₩ 654,513
Provision for possible losses from lawsuits	₩ 5,825,349	₩ 6,634,366
	₩ 6,865,566	₩ 7,288,879

Changes in provision for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015					
	Beginning balance	Addition (*1)	Provision (Reversal)	Use	Transfer (*2)	Ending balance
Reserve for rehabilitation	₩ 654,514	₩ 390,304	₩ 20,970	₩ (25,571)	₩ -	₩ 1,040,217
Provision for possible losses from lawsuits	₩ 6,634,366	-	₩ (199,193)	₩ (94,000)	₩ (515,824)	₩ 5,825,349
	₩ 7,288,880	₩ 390,304	₩ (178,223)	₩ (119,571)	₩ (515,824)	₩ 6,865,566

	Year ended December 31, 2014						
	Beginning balance	Addition (*1)	Provision (Reversal)	Use	Transfer (*2)	Business combination	Ending balance
Provision for payment guarantees of bonds	₩ 372,889	₩ -	₩ (372,889)	₩ -	₩ -	₩ -	₩ -
Reserve for rehabilitation	₩ 532,092	₩ 478,470	₩ 18,191	₩ (399,398)	₩ -	₩ 25,159	₩ 654,514
Provision for possible losses from lawsuits	₩ 1,459,745	₩ -	₩ 5,270,621	₩ -	₩ (96,000)	₩ -	₩ 6,634,366
	₩ 2,364,726	₩ 478,470	₩ 4,915,923	₩ (399,398)	₩ (96,000)	₩ 25,159	₩ 7,288,880

(*1) Provision for restoration cost was included in the acquisition amount of tangible assets.

(*2) Transfers to allowance for advance for customers among allowance for possible loan losses.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

21. Defined benefit liabilities

Defined benefit liabilities as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>December 31, 2015</u>		<u>December 31, 2014</u>
Present value of defined benefit liabilities	₩ 10,660,762	₩	10,009,524
Fair value of plan assets	<u>(9,154,133)</u>		<u>(5,633,608)</u>
Defined benefit obligation	<u>₩ 1,506,629</u>	₩	<u>4,375,916</u>

Changes in defined benefit liabilities for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>Year ended December 31, 2015</u>		<u>Year ended December 31, 2014</u>
Beginning balance	₩ 10,009,524	₩	5,167,021
Current service cost	4,211,341		3,218,186
Loss on merger	237,547		-
Interest expense	169,443		160,414
Re-measurement:			
Experience adjustments	118,101		(138,770)
Actuarial changes arising from changes in demographic assumptions	259,543		23 1
Actuarial changes arising from changes in financial assumptions	26,551		304,962
Payment	(4,385,921)		(1,985,907)
Business combination	-		3,347,720
Other	14,633		(64,333)
Ending balance	<u>₩ 10,660,762</u>	₩	<u>10,009,524</u>

Changes in plan assets for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>Year ended December 31, 2015</u>		<u>Year ended December 31, 2014</u>
Beginning balance	₩ 5,633,608	₩	4,094,161
Expected return on plan assets	108,001		122,851
Re-measurement:			
Interest income from plan assets	782		(36,163)
Contributions by employer	4,655,481		3,327,690
Payment	(1,258,372)		(1,810,598)
Other	14,633		(64,333)
Ending balance	<u>₩ 9,154,133</u>	₩	<u>5,633,608</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

21. Defined benefit liabilities (cont'd)

Changes in remeasured element of defined benefit liabilities for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Beginning balance	₩ (284,582)	₩ (130,434)
Re-measurement on defined benefit Liabilities	(404,195)	(166,423)
Re-measurement on plan assets	782	(36,163)
Income tax effect	109,481	48,438
Non-controlling interest	(47,751)	-
Ending balance	₩ (626,265)	₩ (284,582)

The details of defined benefit liabilities for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Current service cost	₩ 4,448,888	₩ 3,218,186
Interest expense, net	61,442	37,563
Defined benefit of severance payment	₩ 4,510,330	₩ 3,255,749

The principal actuarial assumptions as of December 31, 2015 and 2014 are as follows :

	December 31, 2015	December 31, 2015
Discount rate	2.36%	2.335% ~ 2.5%
Expected return ratio on plan assets	2.36%	2.50%
Future ratio of salary Increase	2.00%	2.00% ~ 3.00%
Mortality rate	0.002% ~ 0.067%	0.004% ~ 0.076%

Sensitivity analysis for actuarial assumptions in defined benefit liabilities as of December 31, 2015 is as follows (Korean won in thousands):

	December 31, 2015		1% Increase		1% Decrease	
Fluctuation of future salary	₩	10,660,762	₩	11,268,269	₩	10,104,247
Fluctuation of discount rate	₩	10,660,762	₩	10,112,299	₩	11,270,885

The details of plan assets as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015		December 31, 2014	
Deposits, etc.	₩	2,981,187	₩	2,574,503
Equity		4,595		9,157
Bonds		2,070,500		1,641,674
Collective investment securities		3,765,541		954,620
Financial assets in foreign currency		65,061		54,757
Others		267,249		398,897
	₩	9,154,133	₩	5,633,608

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

22. Other liabilities

Details of other liabilities as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>December 31, 2015</u>		<u>December 31, 2014</u>
Other financial liabilities:			
Accounts payables	₩ 99,095,663	₩	102,570,236
Accrued expense payables	218,570,448		141,662,138
Accrued dividend	127,107		92,163
Leasehold deposits received	4,115,400		3,965,400
Unsettled spot exchange	107,822,900		-
Unsettled difference	1,716,067		691,410
Redeemable equity for non controlling shareholders	25,573,417		198,770,989
Present value discount	-		(1,939)
	<u>₩ 457,021,002</u>	<u>₩</u>	<u>447,750,397</u>
Other non-financial liabilities:			
Advance receipts	5,579,525		4,646,223
Unearned income	98,196,630		73,043,521
Withholding tax	12,827,565		10,141,159
Others	26,395,663		12,228,445
	<u>₩ 142,999,383</u>	<u>₩</u>	<u>100,059,348</u>
	<u>₩ 600,020,385</u>	<u>₩</u>	<u>547,809,745</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

23. Derivative instruments

The Group uses derivative financial instruments such as interest rate swaps to exchange interest rate cash flows, currency swaps to hedge against exchange rate fluctuations, stock index options or stock index futures to make a profit and other derivative instruments.

Notional amount outstanding of derivatives, derivative assets and liabilities as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015		
	Notional amount	Asset	Liability
Exchange-traded derivatives:			
Interest rates:			
Interest futuers	₩ 2,201,214,177	₩ 274,102	₩ 167,340
Interest option purchased	-	-	-
Interest option sold	-	-	-
Currency:			
Currency futures	16,256,701	17,653	996
Currency option purchased	-	-	-
Currency option sold	-	-	-
Stock :			
Stock futures	253,455,348	-	733
Stock option purchased	56,895,124	6,248,877	-
Stock option sold	132,059,103	-	54,276
Commodity:			
Commodity futures	9,305,716	144,039	220,819
Commodity option purchased	4,341,088	7,032	-
Commodity option sold	79,876,019	-	1,154,420
	2,753,403,276	6,691,703	1,598,584
Over-the-counter derivatives:			
Interest rates:			
Interest rate swap	75,812,383,000	111,906,732	113,354,688
Interest rate option sold	10,000,000	-	1,271,169
Currency:			
Currency forward	943,534,631	31,181,516	13,312,350
Currency swap	-	-	-
Currency option	-	-	-
Stock:			
Options purchased	32,814,879	3,595,325	-
Options sold	4,281,009	-	2,102,368
Stock swap	305,844	-	26,896
Credit:			
CDS	60,000,000	2,756,709	-
Others:			
Other swap	70,548,389	5,732,111	2,645,167
Options purchased	24,721,000	119,914	--

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

23. Derivative instruments (cont'd)

	December 31, 2015		
	Notional amount	Asset	Liability
Others:			
Options sold	₩ 5,000,000	₩ -	₩ -
	<u>76,963,588,752</u>	<u>155,292,307</u>	<u>132,738,778</u>
	<u>₩ 79,716,992,028</u>	<u>₩ 161,984,010</u>	<u>₩ 134,337,362</u>
	December 31, 2014		
	Notional amount	Asset	Liability
Exchange-traded derivatives:			
Interest rates:			
Interest futuers	₩ 622,489,850	₩ -	₩ -
Interest option purchased	-	-	-
Interest option sold	-	-	-
Currency:			
Currency futures	55,932,492	-	-
Currency option purchased	-	-	-
Currency option sold	-	-	-
Stock :			
Stock futures	126,439,012	69,250	-
Stock option purchased	4,939,818	1,639,077	-
Stock option sold	1,044,665	-	666,280
Commodity:			
Commodity futures	621,158	28,469	-
Commodity option purchased	-	-	-
Commodity option sold	-	-	-
	<u>811,466,995</u>	<u>1,736,796</u>	<u>666,280</u>
Over-the-counter derivatives:			
Interest rates:			
Interest rate swap	59,804,259,920	148,126,654	152,693,462
Interest rate option sold	10,000,000	-	1,276,134
Currency:			
Currency forward	216,298,028	972,286	4,926,635
Currency swap	21,984,000	421,825	420,045
Currency option	-	-	-
Stock:			
Options purchased	33,215,891	2,360,135	-
Options sold	-	-	-
Stock swap	1,902,473	9,941	31,802
Credit:			
CDS	30,000,000	2,515,960	-
TRN	4,160,000	-	2,114,305

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

23. Derivative instruments (cont'd)

	December 31, 2014		
	Notional amount	Asset	Liability
Others:			
Other	2,961,000	14,174	2,697
	<u>60,124,781,312</u>	<u>154,420,975</u>	<u>161,465,080</u>
	<u>₩ 60,936,248,307</u>	<u>₩ 156,157,771</u>	<u>₩ 162,131,360</u>

Gain (loss) on valuation of trading derivative financial instruments for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Exchange-traded derivatives:		
Interest rates	₩ (2,486,630)	₩ (739,418)
Currency	68,330	292,399
Stock	735,685	4,218
Stock index	913,113	1,138,884
Others	<u>(282,715)</u>	<u>28,469</u>
	₩ (1,052,217)	₩ 724,552
Over-the-counter derivatives:		
Interest rates	2,168,908	1,950,387
Currency	17,947,113	(3,949,550)
Stock	(4,216,881)	(1,006,048)
Credit	(330,812)	(30,289)
Others	<u>5,772,337</u>	<u>(61,231)</u>
	₩ 21,340,665	₩ (3,096,731)
	<u>₩ 20,288,448</u>	<u>₩ (2,372,179)</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

24. Capital stock

The Group is authorized to issue 1,000,000,000 shares of common stock and has 496,638,534 shares issued and outstanding in the amount of ₩496,638,534 thousand as of December 31, 2015.

Changes in capital stock for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands, thousand stocks):

Year ended December 31, 2015	<u>Issued shares</u>	<u>Capital stock</u>
January 1, 2015	₩ 311,782,377	₩ 311,782,377
Rights issued	50,000	50,000
Issuance of stock upon merger	66,811,951	66,811,951
Issuance of capital stock	117,994,206	117,994,206
December 31, 2015	<u>₩ 496,638,534</u>	<u>₩ 496,638,534</u>
Year ended December 31, 2014	<u>Issued shares</u>	<u>Capital stock</u>
April 1, 2014	₩ 309,477,377	₩ 309,477,377
Rights issued	2,305,000	2,305,000
December 31, 2014	<u>₩ 311,782,377</u>	<u>₩ 311,782,377</u>

25. Other capital

Other capital as of December 31, 2015 and 2014 consist of the following (Korean won in thousands):

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Paid in capital in excess of par value	₩ 556,127,022	₩ 115,895,907
Gain on disposal of treasury stock	3,456,342	3,456,342
Others (*)	1,961,311	1,961,311
Treasury stock	(9,711,997)	(9,708,254)
Stock options (*)	583,499	20,591
	<u>₩ 552,416,177</u>	<u>₩ 111,625,897</u>

(*) See share-based payment transaction (Note 26)

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

25. Other capital (cont'd)

Changes in other capital for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Beginning balance	₩ 111,625,897	₩ 111,265,374
Acquisition of treasury stock	(3,744)	-
Allocated expense of share based payment	583,499	-
Increase of stock issued upon merger	144,828,870	-
Issuance of capital stock	295,366,946	-
Changes in the composition of other equity resulting from business transfer	-	(315,214)
Executed stock options:		
Stock options	(20,591)	(942,461)
Issued capital in excess of par value	36,091	1,632,210
Costs of the issue	(791)	(14,012)
	₩ 552,416,177	₩ 111,625,897

26. Share-based payment transaction

The Group granted stock options based on general meeting's special decision. in accordance with commercial law and relative laws.

The details of stock options granted by the Group as of December 31, 2015 are summarized as follows (Korean won and number of shares in units):

Stock options granted	4,900,000	2,900,000
Settlement date	2005.12.01	2015.03.20
Settlement method	(*1)	(*1)
Exercise price(*5)	₩1,310	₩4,380
Exercisable period	(*2)	(*3)
Forfeiture period	(*4)	(*4)

(*1) Option holder can select either cash-settled method or equity-settled method at the time of exercise.

(*2) Exercisable within 10 years after the settlement date.

(*3) Exercisable within 4 years after the settlement date.

(*4) Stock options will be forfeited, if not exercised, within the exercisable period.

(*5) The exercise price of stock option granted in this year was adjusted from ₩4,710 due to issuance of capital stock.

26. Share-based payment transaction (cont'd)

Changes in stock options granted during the year ended December 31, 2015 and 2014 are summarized as follows (number of shares in units) :

	Number of stock options
January 1, 2015	50,000
Number of options granted	2,900,000
Number of options decreased	(50,000)
December 31, 2015	<u>2,900,000</u>
	Number of stock options
January 1, 2014	2,355,000
Number of options granted	-
Number of options decreased	(2,305,000)
December 31, 2014	<u>50,000</u>

Stock option compensation costs for options granted are measured at the fair value at the date of grant using the Black-Scholes option-pricing model.

Key assumptions used in the valuation of stock options at the date of grant are summarized as follows:

Date(*1)	2015.03.20	2015.08.17
Risk free rate	2.10%	2.12%
Expected exercise period	3.6 years	3.6 years
Estimated share volatility(*2)	19.96%	24.43%
Estimated dividend rate	4.83%	4.90%

(*1) The exercise price was adjusted on August 17, 2015 when the issue price was determined. This date is a key variable for calculating the increase of fair value. The increment was ₩310 million which will be treated as an expensed over residual period.

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

The Group recorded ₩2,667,026 thousands as other capital at the reporting date (₩2,104,118 thousands at the end of the prior year). And the Group treated share-based payment (₩583,499 thousands) as sales and administrative expense for the year ended 2015.

The Group recognizes an incentive for certain executives as an expense in the period services are received, while it implements the payment method by connecting with daily average price. Its incentives are recognized as a liability. Profit or loss is recognized by measuring the fair value of the liability at the end of each reporting period.

Details of the cash-settled share-based payments for the year ended December 31, 2015 are as follows (Korean won in thousands):

Book value	Before fair value measuring	Variation of fair value	Intrinsic value of liability
₩ 32,242,019	₩ 31,246,952	₩ 995,067	₩ 30,946,584

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

27. Accumulated other comprehensive income

Accumulated other comprehensive income as of December 31, 2015 and 2014 consist of the following (Korean won in thousands):

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Gain on valuation of available-for-sale financial assets:		
Stock	₩ 84,456,201	₩ 163,046,532
Bonds	4,817,402	3,361,371
Collective investment securities	2,326,431	2,458,240
Commercial paper	15,332	-
Income tax effect	<u>(22,096,409)</u>	<u>(40,375,895)</u>
	69,518,957	128,490,248
Gain (loss) on effect of foreign currency translation		
Gain (loss) on effect of foreign currency translation	13,877	-
Income tax effect	<u>(3,335)</u>	<u>-</u>
	10,542	-
Remeasurement of the defined benefit liability:		
Actuarial loss	(777,060)	(373,647)
Income tax effect	<u>198,547</u>	<u>89,065</u>
	<u>(578,513)</u>	<u>(284,582)</u>
Non-controlling interest	<u>(587,222)</u>	<u>-</u>
	<u>₩ 69,538,208</u>	<u>₩ 128,205,666</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

28. Retained earnings

Retained earnings as of December 31, 2015 and 2014 consist of the following (Korean won in thousands):

	December 31, 2015	December 31, 2014
Legal reserve	₩ 26,048,847	₩ 21,617,903
Reserve for possible loan losses	17,742,597	15,856,392
Voluntary reserves	42,466,457	42,466,457
Unappropriated retained earnings	513,713,429	268,203,020
	<u>₩ 599,971,330</u>	<u>₩ 348,143,772</u>

Changes in unappropriated retained earnings for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Beginning balance	₩ 268,203,020	₩ 148,040,752
Reserve for possible loan losses	(1,886,205)	(1,189,786)
Cash dividends	(44,309,444)	(21,229,416)
Reserve of legal reserve	(4,430,944)	(2,122,942)
Net income of non-controlling interests	296,137,002	144,704,412
Ending balance	<u>₩ 513,713,429</u>	<u>₩ 268,203,020</u>

In case 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 the difference, if any, at the reporting date as a regulatory reserve for possible loan losses. In case the amount of existing regulatory reserve for possible loan losses exceeds the amount needed to be laid aside as at 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 the deficit.

Changes in regulatory reserve for possible loan losses the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Appropriated regulatory reserve for possible loan losses	₩ 17,742,597	₩ 15,856,392
Planned provision of regulatory reserve for possible loan losses	<u>(5,466,358)</u>	<u>1,886,205</u>
Ending of regulatory reserve for possible loan losses	<u>₩ 12,276,239</u>	<u>₩ 17,742,597</u>

Provision of regulatory reserve for possible loan losses and adjusting income after the provision of regulatory reserve for possible loan losses for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Net income	₩ 287,336,735	₩ 144,704,412
Planned provision of regulatory reserve for possible loan losses	<u>5,466,358</u>	<u>(1,886,205)</u>
Adjusted income after provision of regulatory reserve for possible loan losses (*)	₩ 292,803,093	₩ 142,818,207
Earnings per share	803	468

(*) Adjusted income after provision of regulatory reserve for possible loan losses is hypothetical amount not accorded with K-IFRS. The amount was calculated by deducting provision from net income.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

29. Net fees and commission income

Net fees and commission income for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015		Year ended December 31, 2014	
Fees and commission income:				
Brokerage commissions	₩	93,233,704	₩	45,841,503
Underwriting commissions		24,851,328		7,326,273
Brokerage commissions on collective investment securities		4,940,264		3,224,219
Management fees on wrap account and asset management		1,634,154		62,975
Finance commissions		157,460,226		88,595,174
Fees on trust accounts		4,517,970		4,562,532
Commissions on CMA		130,577		158,582
Others		59,972,719		36,872,710
		<u>346,740,942</u>		<u>186,643,968</u>
Fees and commission expense:				
Trading commissions		(6,960,931)		(3,829,631)
Lending and borrowing transaction commissions		(6,736,742)		(2,556,342)
Others		(7,594,728)		(3,431,540)
		<u>(21,292,401)</u>		<u>(9,817,513)</u>
	₩	<u>325,448,541</u>	₩	<u>176,826,455</u>

30. 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 31 and 33, respectively

Gain (loss) on financial assets and liabilities held-for-trading for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015				
	Gain on disposal	Loss on disposal	Gain on valuation	Loss on valuation	Net gain (loss)
Financial assets held-for-trading:					
Stock	₩ 64,945,746	₩ (45,306,762)	₩ 3,526,076	₩ (5,402,113)	₩ 17,762,947
Bonds	120,448,364	(100,920,000)	3,691,372	(4,264,163)	18,955,573
Collective investment securities	54,505,050	(48,802,472)	1,855,580	(2,059,669)	5,498,489
Commercial paper	28,891,633	(1,300,463)	924,380	(57,778)	28,457,772
Asset backed short-term bonds	<u>10,158,526</u>	<u>(70,771)</u>	<u>36,864</u>	<u>-</u>	<u>10,124,619</u>
	278,949,319	(196,400,468)	10,034,272	(11,783,723)	80,799,400
Financial liabilities held-for-trading:					
Securities sold	76,682,509	(45,509,360)	3,729,924	(2,424,488)	32,478,585
Bonds sold	19,648,245	(43,985,175)	28,166	(2,535,415)	(26,844,179)
Collective investment securities sold	<u>138,121</u>	<u>(1,142)</u>	<u>26,819</u>	<u>-</u>	<u>163,798</u>
	<u>96,468,875</u>	<u>(89,495,677)</u>	<u>3,784,909</u>	<u>(4,959,903)</u>	<u>5,798,204</u>
	₩ <u>375,418,194</u>	₩ <u>(285,896,145)</u>	₩ <u>13,819,181</u>	₩ <u>(16,743,626)</u>	₩ <u>86,597,604</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

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

	Year ended December 31, 2014				
	Gain on disposal	Loss on disposal	Gain on valuation	Loss on valuation	Net gain (loss)
Financial assets held-for-trading:					
Stock	₩ 24,517,362	₩ (26,162,083)	₩ 702,413	₩ (3,314,630)	₩ (4,256,938)
Bonds	74,523,333	(38,479,377)	12,433,235	(1,956,598)	46,520,593
Collective investment securities	43,663,317	(46,169,449)	1,439,134	(4,472,945)	(5,539,943)
Commercial paper	9,926,784	(1,587,613)	649,756	(5,020)	8,983,907
Asset backed short-term bonds	5,959,146	(169,945)	10,812	-	5,800,013
	<u>158,589,942</u>	<u>(112,568,467)</u>	<u>15,235,350</u>	<u>(9,749,193)</u>	<u>51,507,632</u>
Financial liabilities held-for-trading:					
Securities sold	18,173,735	(14,783,036)	2,596,956	(1,908,251)	4,079,404
Bonds sold	20,965,326	(75,220,066)	482,580	(2,759,916)	(56,532,076)
	<u>39,139,061</u>	<u>(90,003,102)</u>	<u>3,079,536</u>	<u>(4,668,167)</u>	<u>(52,452,672)</u>
	<u>₩ 197,729,003</u>	<u>₩ (202,571,569)</u>	<u>₩ 18,314,886</u>	<u>₩ (14,417,360)</u>	<u>₩ (945,040)</u>

Gain (loss) on financial assets and liabilities designated at fair value through profit or loss for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015				
	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	₩ 75,736	₩ -	₩ 7,852	₩ (571,828)	₩ (488,240)
Derivatives linked securities	71,796	(5,910)	5,724	(218,873)	(147,263)
Reserve for claims of customers' deposits (trust)	-	-	4,304,673	-	4,304,673
Others	-	(66,692)	2,639,864	(9,930)	2,563,242
	<u>147,532</u>	<u>(72,602)</u>	<u>6,958,113</u>	<u>(800,631)</u>	<u>6,232,412</u>
Financial assets designated at fair value through profit or loss:					
Equity linked securities sold	10,299	(989,399)	1,025,198	(486,154)	(440,056)
Derivative linked securities sold	82,084	(4,999,802)	717,848	(1,664,353)	(5,864,223)
	<u>92,383</u>	<u>(5,989,201)</u>	<u>1,743,046</u>	<u>(2,150,507)</u>	<u>(6,304,279)</u>
	<u>₩ 239,915</u>	<u>₩ (6,061,803)</u>	<u>₩ 8,701,159</u>	<u>₩ (2,951,138)</u>	<u>₩ (71,867)</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

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

	Year ended December 31, 2014				
	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	₩ 3,197	₩ (108,977)	₩ -	₩ (283,442)	₩ (389,222)
Derivatives linked securities	317,391	(10,933)	-	(418,295)	(111,837)
Reserve for claims of customers' deposits (trust)	-	-	2,982,325	-	2,982,325
Others	355,473	(337,645)	611,917	(71,598)	558,147
	<u>676,061</u>	<u>(457,555)</u>	<u>3,594,242</u>	<u>(773,335)</u>	<u>3,039,413</u>
Financial assets designated at fair value through profit or loss:					
Equity linked securities sold	108,977	(3,303)	297,800	(2,812)	400,662
Derivative linked securities sold	854,062	(1,559,640)	1,629,271	(1,539,416)	(615,723)
	<u>963,039</u>	<u>(1,562,943)</u>	<u>1,927,071</u>	<u>(1,542,228)</u>	<u>(215,061)</u>
	<u>₩ 1,639,100</u>	<u>₩ (2,020,498)</u>	<u>₩ 5,521,313</u>	<u>₩ (2,315,563)</u>	<u>₩ 2,824,352</u>

Gain (loss) on available-for-sale financial assets for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015				
	Gain on disposal	Loss on disposal	Impairment loss	Net gain (loss)	
Stock	₩ 68,616,066	₩ (131,808)	₩ (666,096)	₩ 67,818,162	
Bonds	107,094	-	(509,518)	(402,424)	
Collective investment securities	1,262,495	(1,063,602)	(21)	198,872	
Others	3,228,844	(253,487)	-	2,975,357	
	<u>₩ 73,214,499</u>	<u>₩ (1,448,897)</u>	<u>₩ (1,175,635)</u>	<u>₩ 70,589,967</u>	
	Year ended December 31, 2014				
	Gain on disposal	Loss on disposal	Recovery of impairment losses	Impairment loss	Net gain (loss)
Stock	₩ 10,306,331	₩ (379,835)	₩ -	₩ (966,065)	₩ 8,960,431
Bonds	1,990,903	(53,920)	306,791	-	2,243,774
Collective investment securities	1,351,916	-	-	-	1,351,916
Foreign currency securities	96,954	-	-	-	96,954
	<u>₩ 13,746,104</u>	<u>₩ (433,755)</u>	<u>₩ 306,791</u>	<u>₩ (966,065)</u>	<u>₩ 12,653,075</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

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

Gain (loss) on other financial liabilities for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015			
	Loss on redemption	Gain on valuation	Loss on valuation	Net gain (loss)
Debentures	₩ -	₩ -	₩ -	₩ -
Other financial liabilities	-	7	-	7
	<u>₩ -</u>	<u>₩ 7</u>	<u>₩ -</u>	<u>₩ 7</u>

	Year ended December 31, 2014			
	Loss on redemption	Gain on valuation	Loss on valuation	Net gain (loss)
Debentures	₩ (2,550,486)	₩ -	₩ -	₩ (2,550,486)
Other financial liabilities	-	5,512	(1)	5,511
	<u>₩ (2,550,486)</u>	<u>₩ 5,512</u>	<u>₩ (1)</u>	<u>₩ (2,544,975)</u>

Gain (loss) on financial derivatives for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015				
	Gain on disposal/redemption	Loss on disposal/redemption	Gain on valuation	Loss on valuation	Net gain (loss)
Exchange-traded derivatives:					
Futures	₩ 200,630,593	₩ (202,422,591)	₩ 3,864,725	₩ (4,972,108)	₩ (2,899,381)
Option	120,130,674	(112,716,023)	673,693	(618,525)	7,469,819
Over-the-counter derivatives:					
Stock warrant securities	728,443	-	-	-	728,443
Others	1,181,939,868	(1,197,571,556)	49,531,958	(28,191,293)	5,708,977
	<u>₩ 1,503,429,578</u>	<u>₩ (1,512,710,170)</u>	<u>₩ 54,070,376</u>	<u>₩ (33,781,926)</u>	<u>₩ 11,007,858</u>

	Year ended December 31, 2014				
	Gain on disposal/redemption	Loss on disposal/redemption	Gain on valuation	Loss on valuation	Net gain (loss)
Exchange-traded derivatives:					
Futures	₩ 96,102,964	₩ (92,877,883)	₩ 1,704,463	₩ (961,116)	₩ 3,968,428
Option	13,138,862	(11,751,961)	-	(18,795)	1,368,106
Over-the-counter derivatives:					
Others	251,147,024	(256,616,861)	126,280,748	(129,377,479)	(8,566,568)
	<u>₩ 360,388,850</u>	<u>₩ (361,246,705)</u>	<u>₩ 127,985,211</u>	<u>₩ (130,357,390)</u>	<u>₩ (3,230,034)</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

31. Net interest income

Net interest income for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Interest income:		
Cash and due from banks	₩ 13,527,494	₩ 13,789,746
Held-for-trading financial assets	174,130,157	148,305,724
Available-for-sale financial assets	6,776,604	8,016,770
Loans, etc.	226,503,550	209,612,225
CMA	1,568,572	2,435,039
Others	16,389,948	5,441,561
	<u>438,896,325</u>	<u>387,601,065</u>
Interest expense:		
Deposits	(59,394,153)	(72,177,675)
Borrowings	(118,931,096)	(117,165,147)
Bonds	(13,565,703)	(12,913,479)
Others	(31,248,398)	(39,485,691)
	<u>(223,139,350)</u>	<u>(241,741,992)</u>
	<u>₩ 215,756,975</u>	<u>₩ 145,859,073</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

32. Selling and administrative expense

Selling and administrative expenses for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Payroll expenses:		
Salary expenses	₩ 267,492,891	₩ 149,857,931
Post-employment benefits (DB)	4,510,330	3,255,749
Post-employment benefits (DC)	2,880,284	2,485,252
Early retirement benefits	7,952,981	6,570,141
Compensation Expenses Associated with Stock Option	583,499	-
	<u>283,419,985</u>	<u>162,169,073</u>
General and administrative expenses:		
Employee benefits	21,751,682	16,899,407
Electronic data processing expenses	10,888,701	10,033,524
Rental expense	6,517,858	4,625,913
Commission expense	16,056,755	13,069,381
Entertainment expenses	8,855,464	5,550,220
Advertising expense	1,117,098	857,664
Depreciation	5,956,023	5,069,245
Training expenses	166,567	122,805
Amortization	7,188,060	7,196,294
Taxes and dues	20,352,952	10,982,209
Others	12,951,111	11,001,113
	<u>111,802,271</u>	<u>85,407,775</u>
	<u>₩ 395,222,256</u>	<u>₩ 247,576,848</u>

33. Other operating income (expense)

Other operating income (expense) for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Other operating income:		
Dividends on financial assets held for trading	₩ 8,194,022	₩ 2,136,287
Dividends on available-for-sale financial assets	11,367,536	1,798,054
Reversal of impairment loss	1,671	-
Reversal of other provisions	199,193	-
Reversal of credit risk adjustments	-	209,826
Reversal of deferred day 1 profit or loss adjustments	37,979,319	8,002,360
Others	11,872,098	1,737,241
	<u>₩ 69,613,839</u>	<u>₩ 13,883,768</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

33. Other operating income (expense) (cont'd)

	Year ended December 31, 2015	Year ended December 31, 2014
Other operating expenses:		
Provision for other doubtful accounts	₩ (20,677)	₩ (233,695)
Provision for other provisions	-	(4,897,732)
Provision for credit risk adjustments	(354,032)	(149,578)
Amortization of deferred day 1 profit or loss adjustments	(1,157,295)	(267,295)
Others	(8,780,625)	(78,822)
	<u>(10,312,629)</u>	<u>(5,627,122)</u>
	<u>₩ 59,301,210</u>	<u>₩ 8,256,646</u>

34. Non-operating income (expense)

Non operating income (expense) for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Non-operating income:		
Gain on disposal property and equipment	₩ -	₩ 5,612
Rental fee income	1,480,426	714,953
Gain on disposal subsidiaries and associates	1,296,676	284,100
Others (*)	1,456,487	36,013,510
	<u>4,233,589</u>	<u>37,018,175</u>
Non-operating expense:		
Loss on disposal property and equipment	(24,638)	(1,377,009)
Loss on disposal investment properties	-	-
Loss on disposal intangible assets	-	(781,215)
Impairment losses on intangible assets	(2,068)	(245,691)
Loss on disposal subsidiaries and associates	(34,243)	(43,988)
Impairment losses on subsidiaries and associates	(2,565,669)	-
Others	(238,489)	(154,283)
	<u>(2,865,107)</u>	<u>(2,602,186)</u>
	<u>₩ 1,368,482</u>	<u>₩ 34,415,989</u>

(*) Others include gain on bargain purchase arising from the acquisition of I'M Investment & Securities Co., Ltd in 2014.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

35. Income taxes

The major components of income tax expense for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Current income taxes	₩ 151,109,937	₩ 38,407,691
Adjustments of prior year's income tax	389,310	(1,183,330)
Changes in deferred income taxes due to temporary differences	(50,715,598)	31,682,775
Change arising from business combination	-	(16,174,523)
Current and deferred income taxes recognized directly to equity :		
Gain (loss) on valuation of available-for-sale financial assets	18,262,116	(18,824,287)
Actuarial gain	-	48,438
Loss (gain) on effect of foreign currency translation	(3,344)	-
Capital surplus & adjustments	109,481	98,182
Income tax expense	<u>₩ 119,151,902</u>	<u>₩ 34,054,946</u>

Details of the relationship between income tax expense and income before income taxes for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Income before income taxes	₩ 406,488,637	₩ 178,759,357
Income taxes at statutory tax rate (*1)	97,908,250	42,797,764
Adjustments:		
Non-deductible expenses and others(*2)	24,589,457	887,850
Non-taxable income and others(*3)	(7,889,652)	(8,421,329)
Income tax on undistributed corporate earnings	4,510,910	-
Adjustments of prior year's income tax	389,310	(1,183,330)
Others	(356,373)	(26,009)
Income tax expense	<u>₩ 119,151,902</u>	<u>₩ 34,054,946</u>
Effective income tax rate	<u>29.31%</u>	<u>19.05%</u>

(*1) Income tax rate of 11% is applied for income below ₩200 million and 22% for income above ₩200 million and below ₩20 billion and 24.2% for income above ₩20 billion for the years ended December 31, 2015 and 2014.

(*2) The amount included taxes on gain from merger.

(*3) The amount included the effect of exclusion from gross revenue due to constructive dividend of merger to shareholders of the merged corporation for the year ended 2015, and included the tax effect of bargain purchase for the year ended 2014.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

35. Income taxes (cont'd)

The details of tax liabilities as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Deferred income tax assets	₩ 45,992,366	₩ -
Current income tax liabilities	76,054,817	14,763,397
Deferred income tax liabilities	-	49,798,622
	<u>₩ 76,054,817</u>	<u>₩ 64,562,019</u>

Temporary differences and deferred income tax assets (liabilities) as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015	December 31, 2014
Finance lease receivables	₩ (2,905,021)	₩ (4,295,189)
Gain on valuation of financial liabilities held-for-trading	283,173	308,395
Gain (loss) on valuation of financial assets held-for-trading	462,414	(1,475,287)
Gain (loss) on valuation of financial assets designated at fair value through profit or loss	(584,755)	(12,862)
Gain on valuation of derivatives-combined securities sold	(127,760)	153,393
Gain (loss) on valuation of derivatives-combined securities	327,899	187,751
Gain on valuation of derivative instruments	(3,154,585)	1,396,282
Deferred loan fee	2,529,583	1,204,735
Deferred day 1 profit or loss	(193,378)	(166,083)
Gain (loss) on foreign transactions	(89,870)	(23,183)
Allowance for loan losses	586,997	741,421
Lease	5,481	7,442
Withdrawal of sales transaction	(197,010)	(195,144)
Available-for-sale financial assets	(16,859,377)	(50,752,533)
Accrued income	(4,610,844)	(6,215,027)
Accrued expenses	9,143,653	8,054,089
Credit risk-adjusted	(65,776)	(149,906)
Property and equipment, intangible assets	(6,952,934)	(10,410,949)
Subsidiaries and associates	5,053,812	5,939,990
Allowance accounts	1,660,735	1,742,771
Retirement pension premium	(1,971,574)	(1,346,996)
Defined benefit liabilities	2,465,477	2,138,788
Treasury stock	60,352,539	-
Others	833,487	3,369,480
	<u>45,992,366</u>	<u>(49,798,622)</u>
Deferred income tax assets	₩ 83,705,250	₩ 25,244,537
Deferred income tax liabilities	₩ (37,712,884)	₩ (75,043,159)

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

35. Income taxes (cont'd)

Changes in the temporary differences and deferred income tax assets (liabilities) for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015		
	Beginning balance (*)	Changes	Ending balance
Financial lease receivables	₩ (17,963,986)	₩ 5,909,959	₩ (12,054,027)
Gain (loss) on valuation of financial liabilities held-for-trading	1,263,872	(88,879)	1,174,993
Gain (loss) on valuation of financial assets held-for-trading	(6,161,818)	8,080,548	1,918,730
Gain (loss) on valuation of financial assets designated at fair value through profit or loss	(6,059)	(2,420,310)	(2,426,369)
Gain (loss) on valuation of derivatives-combined securities sold	641,545	(1,171,671)	(530,126)
Gain (loss) on valuation of derivatives-combined securities	785,239	575,338	1,360,577
Gain (loss) on valuation of derivative instruments	7,805,593	(20,895,159)	(13,089,566)
Deferred loan fee	5,038,624	5,457,569	10,496,193
Deferred day 1 profit or loss	(694,617)	(107,781)	(802,398)
Gain (loss) on foreign transactions	(96,959)	(275,944)	(372,903)
Allowance for loan losses	3,060,444	(624,773)	2,435,671
Lease	31,125	(8,383)	22,742
Withdrawal of sales transaction	(816,162)	(1,306)	(817,468)
Available-for-sale financial assets	(221,798,375)	151,842,452	(69,955,923)
Accrued income	(26,080,405)	6,948,271	(19,132,134)
Accrued expenses	35,775,383	2,165,087	37,940,470
Credit risk-adjusted	(626,960)	354,032	(272,928)
Property and equipment, intangible assets	(42,724,690)	13,874,342	(28,850,348)
Subsidiaries and associates	24,888,451	(3,918,263)	20,970,188
Allowance accounts	7,314,332	(423,313)	6,891,019
Retirement pension premium	(5,019,350)	(3,161,454)	(8,180,804)
Defined benefit liabilities	10,953,149	(722,956)	10,230,193
Treasury stock	185,964,125	64,461,347	250,425,472
Others	18,483,167	(15,024,716)	3,458,451
	₩ (19,984,332)	₩ 210,824,037	₩ 190,839,705
Deferred income tax liabilities	₩ (4,723,232)		₩ 45,992,366

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

35. Income taxes (cont'd)

	Year ended December 31, 2014		
	Beginning balance (*)	Changes	Ending balance
Financial lease receivables	₩ (19,291,267)	₩ 1,327,281	₩ (17,963,986)
Gain (loss) on valuation of financial liabilities held-for-trading	1,939,169	(675,297)	1,263,872
Gain (loss) on valuation of financial assets held-for-trading	7,559,358	(13,721,176)	(6,161,818)
Gain (loss) on valuation of financial assets designated at fair value through profit or loss	848,263	(902,055)	(53,792)
Gain (loss) on valuation of derivatives-combined securities sold	633,571	7,974	641,545
Gain (loss) on valuation of derivatives-combined securities	(190,193)	975,432	785,239
Gain (loss) on valuation of derivative instruments	6,094,027	(268,434)	5,825,593
Deferred loan fee	7,178,694	(2,140,070)	5,038,624
Deferred day 1 profit or loss	67,577	(762,194)	(694,617)
Gain (loss) on foreign transactions	237,191	(334,150)	(96,959)
Allowance for loan losses	3,726,544	(625,663)	3,100,881
Lease	118,022	(86,897)	31,125
Withdrawal of sales transaction	(858,901)	42,739	(816,162)
Available-for-sale financial assets	(60,803,723)	(157,738,201)	(218,541,924)
Accrued income	(16,531,861)	(9,548,544)	(26,080,405)
Accrued expenses	18,556,343	15,182,805	33,739,148
Credit risk-adjusted	(566,712)	(60,248)	(626,960)
Property and equipment, intangible assets	(32,211,415)	(12,141,624)	(44,353,039)
Subsidiaries and associates	3,514,796	21,328,323	24,843,119
Allowance accounts	2,364,726	9,391,082	11,755,808
Retirement pension premium	(3,733,710)	(1,899,898)	(5,633,608)
Defined benefit liabilities	4,508,131	4,711,537	9,219,668
Others	564,121	9,849,713	10,413,834
	<u>₩ (76,277,249)</u>	<u>₩ (138,087,565)</u>	<u>₩ (214,364,814)</u>
Deferred income tax liabilities	<u>₩ (18,115,847)</u>		<u>₩ (49,798,622)</u>

(*) Beginning temporary difference and deferred income taxes and calculated reflecting the changes in the final income tax return, merger, etc.

Deferred income tax assets (liabilities) are measured at the average tax rates that are expected to apply 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.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

36. 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, 2015 and 2014 are as follows (in Korean won and shares in units):

	Year ended December 31, 2015	Year ended December 31, 2014
Net income attributable to the common stock holder of the parent	₩ 296,137,002,455	₩ 144,704,411,516
Weighted average number of common stock outstanding (*)	364,583,142	304,905,089
Basic earnings per share	812	475

(*) 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, 2015 and 2014 are as follows (Korean won in units):

	Year ended December 31, 2015	Year ended December 31, 2014
Net income attributable to common stock holders	₩ 296,137,002,455	₩ 144,704,411,516
Diluted net income attributable to common stock holders	296,137,002,455	144,704,411,516
Weighted average number of common stock outstanding (*)	364,602,520	304,932,052
Diluted earnings per share	812	475

(*) The amount is calculated by reflecting the dilution effect. The number of potential common stock of the current and prior period which has dilution effect is 19,378 and 26,963 shares for the years ended December 31, 2015 and 2014, respectively.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

37. Assets and liabilities denominated in foreign currencies

Significant assets and liabilities denominated in foreign currencies as of December 31, 2015 and 2014 are as follows (Korean won in thousands or USD, JPY, EUR, HKD, NOK, CNH, JPY, GBP):

Account	Currency	December 31, 2015	
		Amount in foreign currency in unit	Korean won equivalent
Assets in foreign currencies:			
Cash and due from banks	USD	11,438,296	₩ 13,405,683
	EUR	280,215	358,824
	HKD	331,649	50,149
	JPY	1,714,130	16,662
	GBP	133	231
	CNH	549	98
	AUD	75	64
	NOK	2	1
Financial assets at fair value through profit or loss	USD	831,200	974,166
Investments in associates	USD	158,839	186,159
Other assets	USD	56,000,000	65,632,000
			₩ 80,624,037
Liabilities in foreign currency:			
Deposits	USD	91,399	₩ 107,120
Other liabilities	USD	36,004,126	42,196,835
			₩ 42,303,955
December 31, 2014			
Account	Currency	Amount in foreign currency in unit	Korean won equivalent
Assets in foreign currencies:			
Cash and due from banks	USD	2,035,068	₩ 2,236,947
	EUR	16,112	21,533
	HKD	121	17
	JPY	10,402,157	95,714
	GBP	1	1
	CNH	1,032,856	182,619
	NOK	2	1
	AUD	75	68
Financial assets at fair value through profit or loss	USD	4,938,419	5,428,310
	CNH	3,196,110	565,104
Investments in associates	USD	158,839	174,596
Other assets	USD	-	-
			₩ 8,704,910
Liabilities in foreign currency:			
Deposits	USD	51,067	₩ 56,133
Other liabilities	USD	1,547	1,701
			₩ 57,834

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

38. Pledged assets

Restricted balances in due from banks as of December 31, 2015 and 2014 are summarized as follows (Korean won in thousands):

	Counterparty	Others information	December 31, 2015	December 31, 2014
Cash and Deposits:				
Restricted due from financial institutions		Deposits for checking accounts		
	KB Bank and others		₩ 129,000	₩ 113,300
Long-term deposits		Pledged for settlement		
	Woori Bank and others		2,000,000	7,100,000
Reserve for claims of customers' deposits	Korea Securities Finance Corporation ("KSFC")	(*)	37,000,000	2,100,000
Guarantee deposits for loan transaction	Korea Securities Depository and others		9,059,110	14,380,000
Guarantee deposits for trading futures and options (brokerage)	KRX		38,723,763	24,174,000
Guarantee deposits for OTC Derivatives	NH Investment Securities		-	982,852
Guarantee deposits	KSFC		-	300,000
Financial asset at fair value through profit or loss:				
Reserve for claims of customers' deposits(Trust)	KSFC	(*)	295,920,714	148,445,272
Available-for-sale financial assets:				
Collective fund for default loss	KRX		6,262,079	8,279,070
			<u>₩ 389,094,666</u>	<u>₩ 205,874,494</u>

(*) Pursuant to the Law on Capital Market and Financial Investment Services and related regulations, the Group is required to place a deposit after daily calculation 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.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

38. 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, 2015			
Pledged to	Description of pledged asset	Pledged amount(*)	Pledged for
KRX	Bonds	₩ 50,546,133	Derivative transaction
KSD & KSFC	ETF beneficiary certificate, Stocks, CP, Bonds	950,549,189	Lending and borrowing transactions
KSD and others	Bonds	5,599,768,082	Bonds under repurchase agreements
KSFC and others	Bonds	25,736,717	Payment fund
RREEF SPEZIAL INVEST GmbH	Bonds	1,884,010	Withholdings
		<u>₩ 6,628,484,131</u>	
December 31, 2014			
Pledged to	Description of pledged asset	Pledged amount(*)	Pledged for
KRX	Bonds	₩ 41,184,262	Derivative transaction
KSD & KSFC	ETF beneficiary certificate, Stocks, CP, Bonds	1,255,971,046	Loan transactions
KSD and others	Bonds	3,784,017,232	Bonds under repurchase agreements
KSFC and others	Bonds	25,428,354	Payment fund
		<u>₩ 5,020,172,658</u>	

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

39. Guarantees and commitments

Credit line facilities

The Group has the following agreements with several banks as of December 31, 2015 (Korean won in thousands, USD in unit):

<u>Agreement</u>	<u>Bank</u>	<u>Currency</u>	<u>Maximum limit</u>	<u>Maturity date</u>
Intraday overdraft	Woori Bank	KRW	10,000,000	2016.09.07
	Woori Bank	KRW	50,000,000	2016.09.07
	Hana Bank	KRW	10,000,000	2016.10.29
	Shinhan Bank	KRW	20,000,000	2016.09.05
	KB Bank	KRW	10,000,000	2016.11.26
Overdraft	KB Bank	KRW	5,000,000	2016.07.10
	Daegoo Bank	KRW	5,000,000	2016.06.29
Note discounted	KSFC	KRW	170,000,000	2019.10.31
Note discounted	KSFC	-	Subscription amount within the limits	2019.10.31
Agency operating funds	KSFC	KRW	200,000,000	2020.03.02
Agency operating funds (trust)	KSFC	-	Deposit within operational limits	2020.03.02
Financial capital distribution	KSFC	KRW	150,000,000	2017.03.29
Mortgage financing	KSFC	KRW	200,000,000	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 14 lawsuits (plaintiff: 11 cases, defendant: 3 cases) with total claim amounting ₩29,154 million. The Group provided provisions estimated from previous experience in similar lawsuits(balance of provisions: ₩5,825million) as of December 31, 2015 (Note 20).

39. Guarantees and commitments (cont'd)

Purchase Agreement

The Group's purchase agreements as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015			
		Maximum limit		Balance
ABCP purchase commitment (*1)	₩	116,059,600	₩	116,059,600
Conditional loan commitment		72,000,000		72,000,000
Loan commitment		802,332,263		517,929,921
Mortgage loan commitment (*2)		2,603,859,784		2,603,859,784
	₩	<u>3,594,251,647</u>	₩	<u>3,309,849,305</u>

	December 31, 2014			
		Maximum limit		Balance
ABCP purchase commitment (*1)	₩	289,376,100	₩	251,876,100
Loan commitment		900,450,000		652,587,731
Mortgage loan commitment (*2)		2,131,375,600		2,131,375,600
	₩	<u>3,321,201,700</u>	₩	<u>3,035,839,431</u>

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

(*2) It is contractual amounts of secured loans executed by the Group according to mortgage loan commitment as of December 31, 2015 and 2014 and mortgage loan commitment between consolidated entities is excluded.

Details of the Group's Details of agreement as of December 31, 2015 is as follows (Korean won in thousands):

Type	Opponent	December 31, 2015			
			Maximum limit		Balance
ABCP purchase commitment	Swallow One Co.,Ltd.	₩	30,440,000	₩	30,440,000
	Meegeren 5 th		22,400,000		22,400,000
	Shiningstar 16 th		2,720,500		2,720,500
	Shining star 17 th		3,036,000		3,036,000
	Shining star 18 th		565,000		565,000
	Shining star 19 th		285,000		285,000
	Shining star 20 th		571,000		571,000
	Shiningstar 22 th		778,000		778,000
	Shining star 23 th		264,100		264,100
	M Futurerio 1 st		55,000,000		55,000,000
		<u>116,059,600</u>		<u>116,059,600</u>	
Conditional loan commitment	CJ Paradise Co., Ltd.		30,000,000		30,000,000
	Haein Leisure Industry Co., Ltd.		22,000,000		22,000,000
	Jeil YoungJae Group		20,000,000		20,000,000
			<u>72,000,000</u>		<u>72,000,000</u>
Loan commitment	Samdo Development Co., Ltd.		14,500,000		3,300,000

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

39. Guarantees and commitments (cont'd)

Purchase Agreement (cont'd)

Type	Opponent	December 31, 2015	
		Maximum limit	Balance
	Hanam Haeteo 1st	30,000,000	17,500,000
	IASS Holdings Inc.	12,150,000	600,000
	STS Development Co., Ltd.	10,650,000	2,430,000
	M square PFV Co., Ltd.	10,000,000	3,000,000
	SUNGWON Development & Construction Co., Ltd.	8,500,000	8,500,000
	Korea Asset In Trust Co., Ltd	15,000,000	15,000,000
	Geoje big island PFV Co., Ltd.	30,000,000	29,700,000
	Shiwon DNP	15,000,000	7,900,000
	Yongin Technology Valley	15,000,000	15,000,000
	Like home Co., Ltd.	15,000,000	11,080,000
	City Galaxy Co., Ltd.	15,000,000	3,120,000
	Omni Networks	14,500,000	8,600,000
	Penta Port Development	15,000,000	1,900,000
	Iijin Leisure Industry Co., Ltd.	15,000,000	7,000,000
	Sejong LF	5,000,000	3,500,000
	U World	30,000,000	28,540,000
	Song-do America Town	15,000,000	15,000,000
	Dumir Town	2,477,000	2,477,000
	Cube Asset Management	3,000,000	3,000,000
	M Square Kawcheon 3 th	9,000,000	1,000,000
	Dong Cheon U Tower	3,600,000	3,400,000
	EM Consulting	5,000,000	5,000,000
	Dongdocheon Dream Power	2,105,263	2,105,263
	Ilsin P&C	10,000,000	10,000,000
	GL Moonjeong PFV	2,500,000	2,500,000
	Eco Asset Co., Ltd.	6,500,000	4,600,000
	Ajoo Hotel Seokoo	10,000,000	9,590,658
	LSAH 1ST	7,500,000	7,200,000
	SIP 1ST	7,500,000	7,200,000
	Balgeun Seoul LED	3,200,000	3,160,000
	Seongkwang Logistics	4,000,000	3,806,000
	Apack Stone	15,000,000	14,000,000
	Suseong Beommul Region Housing Partnership	15,000,000	10,000,000
	Hyundai Private Mbs Real Estate Investment Trust No.20	10,000,000	10,000,000
	Milyang Sammun 1 st	7,500,000	7,500,000
	Milyang Sammun 2 nd	7,500,000	7,500,000
	Opo Shinhyun 1 st	7,500,000	7,500,000
	Opo Shinhyun 2 nd	7,500,000	7,500,000

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

39. Guarantees and commitments (cont'd)

Purchase Agreement (cont'd)

Type	Opponent	December 31, 2015	
		Maximum limit	Balance
	OPA	25,000,000	12,000,000
	Song Ok Development Co., Ltd	12,750,000	4,730,000
	Riu Development & Construction Co., Ltd.	10,000,000	10,000,000
	Angel E&C	30,000,000	30,000,000
	Chaewoo Koreana	30,000,000	15,000,000
	CI Housing/H Development Co., Ltd.	28,500,000	16,100,000
	Hwanggan Logistics complex	5,500,000	100,000
	Magok Unifying Union PFV Co., Ltd.	15,000,000	5,769,000
	DAEHO GLOBAL IP Co., Ltd	11,000,000	11,000,000
	Youngtong project Co., Ltd.	10,000,000	5,900,000
	Mastern 12th Seocho PFV	15,000,000	1,207,000
	ED SUN KOREA Co., Ltd.	15,000,000	5,000,000
	Nobelgaemi Co., Ltd.	25,000,000	21,777,000
	Delta	30,000,000	14,443,000
	Gawcheon Wells Holding	15,000,000	12,100,000
	DH Loan Subordinate	3,000,000	3,000,000
	1Beongi Building (Lee sang gul)	9,200,000	8,500,000
	Kyunggi Gwanggu Opo 1st	6,500,000	4,600,000
	Kyunggi Gwanggu Opo 2 nd	6,500,000	4,700,000
	Kyunggi Gwanggu Opo 3 rd	6,500,000	4,700,000
	BIFC Hotel	12,500,000	12,500,000
	Hwain advantas PFV	48,700,000	4,095,000
		<u>802,332,263</u>	<u>517,929,921</u>
Mortgage loan commitment	AK Development & Construction Co., Ltd.	2,000,000	2,000,000
	Sangdo Construction Co., Ltd.	14,700,000	14,700,000
	M Square songdo 1st	82,500,000	82,500,000
	IASS Holdings Inc.	49,000,000	49,000,000
	IDA Planning Co., Ltd.	26,400,000	26,400,000
	M square PFV Co., Ltd.	60,000,000	60,000,000
	MISO Development & Construction	32,000,000	32,000,000
	Seho Development Co., Ltd	62,068,571	62,068,571
	Winners Construction Co., Ltd.	28,500,000	28,500,000
	DAIM Co., Ltd.	26,000,000	26,000,000
	Starstone Development & Construction Co., Ltd.	8,000,000	8,000,000
	HANIL E&I Co., Ltd.	25,548,000	25,548,000
	HanMaUm Construction Co., Ltd.	16,400,000	16,400,000
	Sejong Medical	13,000,000	13,000,000
	JESE Contruction Co., Ltd.	27,570,213	27,570,213
	SR Investment	7,000,000	7,000,000
	Yongin Techno valley Co., Ltd.	60,000,000	60,000,000

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

39. Guarantees and commitments (cont'd)

Purchase Agreement (cont'd)

Type	Opponent	December 31, 2015	
		Maximum limit	Balance
	Like home Co., Ltd.	65,000,000	65,000,000
	City Galaxy Co., Ltd.	39,000,000	39,000,000
	Sejong LF	12,500,000	12,500,000
	Sewon Development Co., Ltd.	21,800,000	21,800,000
	U world	103,000,000	103,000,000
	JL United	40,000,000	40,000,000
	Song-do America Town	100,000,000	100,000,000
	Cheongdam E&C	55,000,000	55,000,000
	CK	17,500,000	17,500,000
	EM Consulting	20,000,000	20,000,000
	New Star Universiad	30,000,000	30,000,000
	Jiben Jidan	60,000,000	60,000,000
	LCT P.F.V	320,000,000	320,000,000
	SB Development Project	45,000,000	45,000,000
	Smart Green 2 nd	30,000,000	30,000,000
	Donuimun Newtown 4 th	160,000,000	160,000,000
	Unjeong Construction Co., Ltd.	55,000,000	55,000,000
	Hills well Misa	30,000,000	30,000,000
	Samin Housing Construction	6,500,000	6,500,000
	Green Narae	66,000,000	66,000,000
	Najoo Commercial Complex Development	48,000,000	48,000,000
	J'S PND Co., Ltd.	6,300,000	6,300,000
	Song Ok Development Co., Ltd.	12,100,000	12,100,000
	PL Construction Co., Ltd.	30,000,000	30,000,000
	MJD 1 st	44,804,000	44,804,000
	H Construction Co., Ltd..	6,668,000	6,668,000
	M square Icheon 1 st	28,900,000	28,900,000
	Audin D&P	109,500,000	109,500,000
	Riu Development & Construction Co., Ltd.	45,000,000	45,000,000
	Dongsan C&D Co., Ltd.	8,000,000	8,000,000
	Mudong 1 st Housing Partnership	47,300,000	47,300,000
	DoubleJST Co., Ltd.	900,000	900,000
	Blue Ocean R&C	37,684,000	37,684,000
	Dongjin D&C Co., Ltd.	10,000,000	10,000,000
	Saehan	35,000,000	35,000,000
	Angel E&C	72,000,000	72,000,000
	Kyungil Construction Co., Ltd.	2,317,000	2,317,000
	Chaewoo Koreana	58,000,000	58,000,000
	Gwachon Sangup Daeto	61,000,000	61,000,000
	Gwachon Gogndong Daeto	67,000,000	67,000,000
	CI Housing/H Development Co., Ltd.	36,400,000	36,400,000
	Junghyun C&C or SPC	20,000,000	20,000,000
		<u>2,603,859,784</u>	<u>2,603,859,784</u>
		₩ <u>3,594,251,647</u>	₩ <u>3,309,849,305</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

39. Guarantees and commitments (cont'd)

Purchase Agreement (cont'd)

The Group's securities received as deposit held on behalf of clients as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Securities received as deposit:		
Consigner	₩ 11,856,776,779	₩ 8,973,351,488
Savers	4,653,084	5,311,722
Beneficiary	<u>4,380,497,873</u>	<u>7,369,748,286</u>
	<u>₩ 16,241,927,736</u>	<u>₩ 16,348,411,496</u>
Securities loaned:		
Stock	₩ 5,406,774	₩ 1,245,872
Securities borrowed:		
Stock	67,833,269	6,945,742
Government & local bonds	<u>99,510,751</u>	<u>114,609,549</u>
	<u>₩ 167,344,020</u>	<u>₩ 121,555,291</u>
Written-off loan	<u>₩ 48,624,141</u>	<u>₩ 48,624,141</u>
Endorsed bills	<u>₩ 80,000,000</u>	<u>₩ 255,000,000</u>

40. Related party disclosures

Significant related parties for the year ended December 31, 2015 are as follows.

Type	Company
Parent company	Meritz Financial Group Inc.
Subsidiaries	Eugene Separate Taxation High-Yield PE No. 2
	Eugene Separate Taxation High-Yield PE No. 7(*1)
	Eugene Separate Taxation High-Yield PE No. 1
	Kiwoom Separate Taxation High-Yield No. 2
	Daishin Separate Taxation High-Yield Private Investment Trust No. 2
	Sparx Separate Taxation High-Yield No. 1(*1)
	Capstone Private Mbs Real Estate Investment Trust No. 2
	Capstone Private Mbs Real Estate Investment Trust No. 3
	Smart-S 6th Securitization Specialty
	Smart-S 8th Securitization Specialty
	Smart-S 10th Securitization Specialty
	Meritz Securitization Specialty Co.,Ltd.
	M Square Gyeyang 1 st
	M Square Gyeyang 2 nd
	M Square Sungsu 1 st
	M Square Pyeongchon 1 st
	M Square Dongcheon 1 st
	MJD 1 st
	Daegu SG
	New Commons 1 st
	Haeundae Project 1 st
	Haeundae Project 2 nd
	M Square Shihung 1 st
	Sungbok 1 st
	M Square Osan 1 st
	M.D.S. Ocean 3 rd
	DM 1 st
	M Square Sangbong 2 nd
	M Square Woodong 1 st
	MGS 1 st (*1)
	M Square Dadam (*1)
	M Square Yangsan 1 st (*1)
	Sanbon Master plaza 1 st
	M Square Jochon 1 st (*1)
	M Square Gunsan 1 st (*1)
	Yongin Sungbok 2 nd (*1)
	Aberlour 1 st (*1)
	LTSB 1 st (*1)
	Smart Lake 1 st (*1)
	DS Haeundae Project (*1)
MDS Ocean 1 st (*1)	
Dongdaemun H 1 st (*1)	
Nice Penta 1 st (*1)	

40. Related party disclosures (cont'd)

Type	Company
	MDS 1 st (*1)
	AM 1 st (*1)
	SMK 1 st (*1)
	SMK 2 nd (*1)
	Smart R&D 1 st (*1)
	UPS 1 st (*1)
	Highest Ocean 1 st (*1)
	M Square Sagik 1 st (*1)
	M Square Chungju 1 st (*1)
	M Square Base 1 st (*1)
	Smart Dongcheon 1 st (*1)
	Smart Penta 1 st (*1)
	Real Benefit (*1)
	M Square Mia 2 nd (*1)
	Smart Sanghyun 1 st (*1)
	Yongin Sungbok 1 st (*1)
	Smartup 1 st (*1)
	Smartup 2 nd (*1)
	Smartup 3 rd (*1)
	CD Two 1 st (*1)
	SLT 1 st (*1)
	Genius 1 st (*1)
	RREEF SPEZIAL INVEST GmbH trust of securities contract (*1)
	Gold digger equity MMT(*1)
	China Asia Investment & Consulting Ltd.
	G New Jump Short-Term Bond Investment Trust 1
Associates	Saengbo Wootoo Shinyoung Housing CR-Reit Co., Ltd. II (*2)
	Cabiroth Investment consulting (Shanghai) Co., Ltd. (*2)
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 Capital Co., Ltd.
	Meritz DM Investment Trust on Special Asset 1 st
	PT.MERITZ KORINDO INSURANCE
	KTB High-Yield Trust on Securities 1 st
	Meritz Private Offering Property 6 th
	Meritz Korea Investment Trust on Bond
	Meritz Korea Small Cap Investment trust on Public Offering Stock (CI)
	TongYang Stock Public Offering High-Yield 7 th
	High-Yield Plus Private Trust on IPO 3 rd
	High-Yield Plus Private Trust on IPO 4 th
	Meritz Korea Investment Trust on Public Offering Stock (CI)
	Meritz High-Yield Private Trust 6 th
	Hyundai High-Yield Private Trust 11 th

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

40. Related party disclosures (cont'd)

Type	Company
	Meritz Global Healthcare High-Yield Trust on Securities 1 st (CI)
	Hyundai High-Yield Private Trust 3 th
	East Spring High-Yield Private Trust 2 nd
	Meritz Auto 1 st Securitization Specialty Co., Ltd.
	Meritz Auto 2 nd Securitization Specialty Co., Ltd.
	Meritz Auto 3 rd Securitization Specialty Co., Ltd.

(*1) The entities are additional subsidiaries for the year ended December 31, 2015. I'M Investment & Securities Co., Ltd. ceased to exist from the merger with Meritz Securities Co., Ltd. And Eugene Separate Taxation High Yield PE No.6 and other five entities liquidated and excluded. Also, the Group lost control of Hyundai Separate Taxation High Yield PE No. 3 and one another entity as they redeemed a portion of their capital.

(*2) Related parties with shares in subsidiaries.

(*3) Meritz Financial Group's subsidiary entities.

Significant transactions with related parties for the year ended December 31, 2015 and 2014 are summarized as follows (Korean won in thousands):

Type	Company	Year ended December 31, 2015		Year ended December 31, 2014	
		Income	Expense	Income	Expense
Parent company	Meritz Financial Group	₩ 5,725	₩ 4,653,767	₩ 6,554	₩ 3,953,738
Others	Meritz Fire & Marine insurance Co.,Ltd.	6,471,889	18,360,779	39,388	11,963,968
	TongYang stock public offering High-Yield 7th	-	126,027	-	-
	Meritz Financial Information Co.,Ltd.	-	-	12,032	2,690,674
	Meritz Financial Information Service Co., Ltd.(before Ritz Partners)	-	39,362	-	92,039
	Meritz Business Service Co.,Ltd.	-	1,420,794	-	1,312,640
	Meritz Capital Co.,Ltd.	213,933	2,452,340	3,608	2,278,430
		<u>₩ 6,691,547</u>	<u>₩ 27,053,069</u>	<u>₩ 61,582</u>	<u>₩ 22,291,489</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

40. Related party disclosures (cont'd)

Outstanding balances with related parties as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

Type	Company	December 31, 2015		December 31, 2014	
		Assets	Liabilities	Assets	Liabilities
Parent company	Meritz Financial Group	₩ 63,365	₩ 22,707,120	₩ 97,283	₩ 27,840,591
Others	Meritz fire & marine insurance Co., Ltd.	456,703	176,977,433	927,267	169,603,555
	Meritz Korea securities investment trust No.1	-	-	30,395,514	-
	Meritz Financial Information Service Co., Ltd. (formerly Ritz Partners)	-	1,534,387	-	2,119,482
	Meritz Business Service Co., Ltd.	-	1,519,917	-	1,899,791
	Meritz Capital Co., Ltd.	34,169,178	27,764,647	84,283	242,257,107
		<u>₩ 34,689,246</u>	<u>₩ 230,503,504</u>	<u>₩ 31,504,347</u>	<u>₩ 443,720,526</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, 2015		Year ended December 31, 2014	
Short-term salary	₩	32,956,593	₩	19,928,436
Severance payment		1,367,709		1,358,859
	₩	<u>34,324,302</u>	₩	<u>21,287,295</u>

41. Statements of cash flows

Cash and cash equivalents in the statements of cash flows as of December 31, 2015 and 2014 are summarized as follows (Korean won in thousands):

	December 31, 2015		December 31, 2014	
Cash	₩	-	₩	58
Cash equivalents		546,225,923		431,691,394
	₩	<u>546,225,923</u>	₩	<u>431,691,452</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

41. Statements of cash flows (cont'd)

Significant non-cash transactions for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Gain (loss) on valuation of available-for-sale financial assets	₩ (77,124,678)	₩ 78,393,208
Actuarial valuation of the net defined benefit liabilities	(403,413)	(202,586)
Present value discount of loans	114,281	269,124
Present value discount of other assets	173,558	292,974
Present value discount of withholdings	8,002,619	12,763,594
Initial recognition of provisions for restoration costs	390,304	478,470
Transferred between advanced payments and intangible assets	432,110	419,630
Transferred between available-for-sale financial assets and loans	-	659,250
Transferred between RCPS and common stock	-	525,544
Transferred between provision and allowance for possible loan losses	515,824	96,000
Transferred between investment property and tangible assets	2,822,078	(844,020)
Conversion of exchangeable bonds into stock	-	8,352,617
Repayment of borrowing securities	(5,909,288)	-
Transferred between financial lease and property	95,944	-
Transferred between priority paid and collective fund for default loss	(11,482)	(10,366)
Provision for investment in direct financing leases	-	452,648
Increase in redeemable equity of non-controlling shareholders	3,327,534	19,069,443
Increase in non-controlling interests	(9,387,489)	177,564,751
Increase in loss on foreign currency transactions	13,877	-
Issuance of stock upon merger	211,996,500	-
Decrease in non-controlling interest by merger	(167,726,608)	-

Net cash flow in accordance with disposal of subsidiaries for the years ended December 31, 2015 and 2014 is as follows (Korean won in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Proceed from disposal	₩ -	₩ -
Cash and cash equivalent in subsidiaries	(28,158,040)	(1,205,697)
Net cash flow	₩ (28,158,040)	₩ (1,205,697)

Net cash flows resulting from business combinations for 2015 and 2014 are as follows (Korean won in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014
Total assets	₩ -	₩ 562,250,693
Total liabilities	-	178,761,440
Total acquisition cost paid in cash	-	171,000,000
Deduction: cash of subsidiaries acquired	-	(101,942,682)
Net cash payment to acquire ownership	₩ -	₩ 69,057,318

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

42. 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 Market Act.

Details of the financial information in relation to trust accounts as of December 31, 2015 are as follows (Korean won in thousands):

	Specific money trust	Property trust	Total
Cash and due from banks	₩ 630,551,873	₩ -	₩ 630,551,873
Negotiable instruments	822,437,286	-	822,437,286
Monetary claims	20,000,000	773,548,832	793,548,832
Real property	-	61,022,080	61,022,080
Other assets	11,176,737	-	11,176,737
	<u>₩ 1,484,165,896</u>	<u>₩ 834,570,912</u>	<u>₩ 2,318,736,808</u>
Other liabilities	27,445,535	-	27,445,535
Trust and the original	1,456,720,361	834,570,912	2,291,291,273
	<u>₩ 1,484,165,896</u>	<u>₩ 834,570,912</u>	<u>₩ 2,318,736,808</u>

Details of transactions with trust accounts as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015	December 31, 2014
Fees on trust accounts	₩ 4,517,970	₩ 4,562,532
Accrued fees on trust accounts	1,337,368	579,449

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

43. Classification of financial assets and liabilities

Classification of financial assets and liabilities as of December 31, 2015 and 2014 is as follows (Korean won in thousands):

	December 31, 2015				
	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	Amortized cost of a financial assets or liabilities	Total
Financial assets:					
Cash and due from banks	₩ -	₩ -	₩ -	₩ 646,068,281	₩ 646,068,281
Financial assets held-for-trading	6,973,250,157	-	-	-	6,973,250,157
Derivative assets	161,984,010	-	-	-	161,984,010
Financial assets designated at fair value through profit or loss	-	335,500,669	-	-	335,500,669
Available-for-sale financial assets	-	-	733,421,016	-	733,421,016
Loans	-	-	-	4,449,846,185	4,449,846,185
CMA	-	-	-	54,820,249	54,820,249
Lease	-	-	-	471,534,869	471,534,869
Other financial assets	-	-	-	304,854,846	304,854,846
	₩ 7,135,234,167	₩ 335,500,669	₩ 733,421,016	₩ 5,927,124,430	₩ 14,131,280,282
Financial liabilities:					
Deposits	-	-	-	3,463,870,841	3,463,870,841
Financial liabilities held-for-trading	571,699,111	-	-	-	571,699,111
Derivative liabilities	134,337,362	-	-	-	134,337,362
Financial liabilities designated at fair value through profit or loss	-	490,792,826	-	-	490,792,826
Borrowings	-	-	-	7,085,058,245	7,085,058,245
Bonds	-	-	-	279,898,600	279,898,600
Other financial liabilities	-	-	-	457,021,002	457,021,002
	₩ 706,036,473	₩ 490,792,826	₩ -	₩ 11,285,848,688	₩ 12,482,677,987

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

43. Classification of financial assets and liabilities (cont'd)

	December 31, 2014				
	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	Amortized cost of a financial assets or liabilities	Total
Financial assets:					
Cash and due from banks	₩ -	₩ -	₩ -	₩ 482,828,180	₩ 482,828,180
Financial assets held-for-trading	5,690,975,615	-	-	-	5,690,975,615
Derivative assets	156,157,769	-	-	-	156,157,769
Financial assets designated at fair value through profit or loss	-	185,677,235	-	-	185,677,235
Available-for-sale financial assets	-	-	777,738,421	-	777,738,421
Loans	-	-	-	3,415,625,379	3,415,625,379
CMA	-	-	-	57,903,063	57,903,063
Lease	-	-	-	605,862,564	605,862,564
Other financial assets	-	-	-	170,196,474	170,196,474
	₩ 5,847,133,384	₩ 185,677,235	₩ 777,738,421	₩ 4,732,415,660	₩ 11,542,964,700
Financial liabilities:					
Deposits	-	-	-	3,268,978,645	3,268,978,645
Financial liabilities held-for-trading	962,409,613	-	-	-	962,409,613
Derivative liabilities	162,131,360	-	-	-	162,131,360
Financial liabilities designated at fair value through profit or loss	-	320,323,756	-	-	320,323,756
Borrowings	-	-	-	5,088,920,394	5,088,920,394
Bonds	-	-	-	279,843,608	279,843,608
Other financial liabilities	-	-	-	447,750,397	447,750,397
	₩ 1,124,540,973	₩ 320,323,756	₩ -	₩ 9,085,493,044	₩ 10,530,357,773

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

44. 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:

Classification	Details
(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 non-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.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

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

Details of the carrying amount and fair value of financial instruments as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	Fair value			
Financial assets:				
Financial assets held-for-trading:				
Equity securities	₩ 279,550,141	₩ -	₩ -	₩ 279,550,141
Debt securities	-	6,605,762,262	-	6,605,762,262
Others	87,937,755	-	-	87,937,755
Derivative assets	6,691,703	143,088,248	12,204,059	161,984,010
Financial assets designated at fair value through profit or loss	4,281,009	30,509,447	300,710,213	335,500,669
Available-for-sale financial assets:				
Equity securities	51,917,331	-	200,156,068	252,073,399
Debt securities	-	390,374,823	-	390,374,823
Others	-	-	90,972,795	90,972,795
	₩ 430,377,939	₩ 7,169,734,780	₩ 604,043,135	₩ 8,204,155,854
Financial liabilities:				
Financial liabilities held-for-trading:				
Equity securities	79,764,851	-	-	79,764,851
Debt securities	-	490,643,123	-	490,643,123
Derivative liabilities	1,625,479	127,938,207	4,773,675	134,337,361
Financial liabilities designated at fair value through profit or loss	-	-	490,792,826	490,792,826
	₩ 81,390,330	₩ 618,581,330	₩ 495,566,501	₩ 1,195,538,161

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

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

	December 31, 2014			
	Fair value			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets held-for-trading:				
Equity securities	₩ 92,315,135	₩ -	₩ -	₩ 92,315,135
Debt securities	-	5,513,469,075	-	5,513,469,075
Others	85,191,405	-	-	85,191,405
Derivative assets	1,746,736	149,520,764	4,890,269	156,157,769
Financial assets designated at fair value through profit or loss	1,735,710	29,928,402	154,013,123	185,677,235
Available-for-sale financial assets:				
Equity securities	136,168,003	-	261,872,604	398,040,607
Debt securities	-	307,177,750	-	307,177,750
Others	-	-	72,520,064	72,520,064
	₩ 317,156,989	₩ 6,000,095,991	₩ 493,296,060	₩ 6,810,549,040
Financial liabilities:				
Financial liabilities held-for-trading:				
Equity securities	61,388,031	-	-	61,388,031
Debt securities	-	901,021,581	-	901,021,581
Derivative liabilities	698,082	159,316,276	2,117,002	162,131,360
Financial liabilities designated at fair value through profit or loss	-	-	320,323,756	320,323,756
	₩ 62,086,113	₩ 1,060,337,857	₩ 322,440,758	₩ 1,444,864,728

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

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

(*1) There was no transfer between level 1 and level 2 in 2015 and 2014. 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) Because there was no posted price of the same financial product in an active market or fair value could not be reliably estimated, ₩10,811,445 thousand of financial assets as of December 31, 2015 were measured at acquisition cost (excluding joint compensation fund for loss incurred from contravention of contracts). Of the financial assets measured at acquisition cost for the years ended December 31, 2015 and 2014, ₩13,790,408 thousand and ₩34,606,612 thousand of book value was eliminated, respectively, and in regard to the elimination, ₩6,048,762 thousand and ₩4,916,743 thousand was recognized as a gain or loss on disposal respectively.

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, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015	December 31, 2014	Valuation technique	Inputs
Financial assets:				
Financial assets held-for-trading:				
Debt securities	₩ 6,605,762,262	₩ 5,513,469,075	DCF model	Discount rate, Interest rate
Derivative assets	143,088,248	149,520,764	DCF model	Discount rate, Exchange rate
Financial assets designated at fair value through profit or loss	30,509,447	29,928,402	DCF model	Discount rate, Interest rate
Available-for-sale financial assets:				
Debt securities	390,374,823	307,177,750	DCF model	Discount rate, Interest rate
	₩ 7,169,734,780	₩ 6,000,095,991		
Financial liabilities:				
Financial liabilities held-for-trading:				
Debt securities	490,643,123	901,021,581	DCF model	Discount rate, Interest rate
Derivative liabilities	127,938,207	159,316,276	DCF model	Discount rate, Interest rate
	₩ 618,581,330	₩ 1,060,337,857		

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

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

Changes in the fair value of level 3 for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

Classification	Year ended December 31, 2015					
	January 1, 2015	Profit / Loss	Other comprehend-sive income	Purchase/ issuance	Disposal/ redemption	December 31, 2015
Assets:						
Financial assets held-for-trading:						
Derivative instruments	₩ 4,890,269	₩ 4,870,824	₩ -	₩ 8,997,488	₩ (6,554,522)	₩ 12,204,059
Financial assets designated at fair value through profit or loss	154,013,123	3,609,512	-	8,116,334,446	(7,973,246,868)	300,710,213
Available-for-sale financial assets:						
Equity instrument	261,872,604	8,808,362	652,932	25,720,921	(96,898,751)	200,156,068
Others	72,520,064	198,872	(131,808)	99,664,799	(81,279,132)	90,972,795
	₩ 493,296,060	₩ 17,487,570	₩ 521,124	₩ 8,250,717,654	₩ (8,157,979,273)	₩ 604,043,135
Liabilities:						
Financial liabilities held-for-trading:						
Derivative instruments	2,117,002	(1,890,405)	-	2,900,097	(2,133,829)	4,773,675
Financial liabilities designated at fair value through profit or loss	320,323,756	(6,463,822)	-	813,937,168	(649,931,920)	490,792,826
	₩ 322,440,758	₩ (8,354,227)	₩ -	₩ 816,837,265	₩ (652,065,749)	₩ 495,566,501

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

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

Classification	Year ended December 31, 2014							
	January 1, 2014	Profit / Loss	Other comprehensive income	Transfer to other level (*)	Business combination	Purchase/issuance	Disposal/redemption	December 31, 2014
Assets:								
Financial assets held-for-trading:								
Derivative instruments	₩ 3,421,360	₩ 2,208,240	₩ -	₩ -	₩ -	₩ 6,253,763	₩ (6,993,094)	₩ 4,890,269
Financial assets designated at fair value through profit or loss	123,573,551	2,770,588	-	-	13,700,000	2,197,620,743	(2,183,651,759)	154,013,123
Available-for-sale financial assets:								
Equity instrument	104,124,939	5,208,697	(821,402)	(5,604,266)	89,480,593	111,365,552	(41,881,509)	261,872,604
Others	8,358,881	1,351,916	446,413	-	3,945,379	60,529,294	(2,111,819)	72,520,064
	₩ 239,478,731	₩ 11,539,441	₩ (374,989)	₩ (5,604,266)	₩ 107,125,972	₩ 2,375,769,352	₩ (2,234,638,181)	₩ 493,296,060
Liabilities:								
Financial liabilities held-for-trading:								
Derivative instruments	3,020,370	(209,840)	-	-	-	1,010,499	(2,123,707)	2,117,002
Financial liabilities designated at fair value through profit or loss	169,498,299	(117,287)	-	-	-	423,128,010	(272,419,840)	320,323,756
	₩ 172,518,669	₩ (327,127)	₩ -	₩ -	₩ -	₩ 424,138,509	₩ (274,543,547)	₩ 322,440,758

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

(*) There was no transfer to level 3 in 2015 and 2014. Because an unlisted company went public in 2015, the amount of ₩5,604,267 thousand was transferred from level 3 to level 1. 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.

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 2015 and 2014 were recognized as follows (Korean won in thousands):

	December 31, 2015		December 31, 2014	
	Profit and loss for the current term	Gain and loss on valuation	Profit and loss for the current term	Gain and loss on valuation
Assets:				
Financial assets held-for-trading:				
Derivative instruments	₩ 4,870,824	₩ 2,914,797	₩ 2,208,240	₩ (1,016,906)
Financial assets designated at fair value through profit or loss	3,609,512	143,588	2,770,588	205,858
Available-for-sale financial assets:				
Equity instruments	8,808,362	-	3,470,211	-
Others	198,872	(21)	1,351,916	-
	<u>17,487,570</u>	<u>3,058,364</u>	<u>9,800,955</u>	<u>(811,048)</u>
Liabilities:				
Financial liabilities held-for-trading:				
Derivative instruments	(1,890,405)	(1,870,881)	(209,840)	(57,882)
Financial liabilities designated at fair value through profit or loss	(6,463,822)	(407,462)	(117,287)	384,842
	<u>(8,354,227)</u>	<u>(2,278,343)</u>	<u>(327,127)</u>	<u>326,960</u>
	<u>₩ 9,133,343</u>	<u>₩ 780,021</u>	<u>₩ 9,473,828</u>	<u>₩ (484,088)</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

44. 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 at December 31, 2015 are as follows (Korean won in millions):

Classification	Fair value	Valuation technique	Inputs	December 31, 2015		
				Significant unobservable inputs	Range	Sensitivity of the input to fair value
Financial assets:						
Financial assets held for-trading	₩ 4,890,269	FDM, Binomial model, Black Scholes model, Monte-Carlo Simulation	Risk free rate, Dividend rate, Discount rate, Volatility, Probability default	Recovery rate Volatility	0%~100% 13.79%~59.30%	Fair value increased due to the increase in recovery rate Fair value increased due to the increase in volatility.
Financial assets designated at fair value through profit or loss	300,710,213	Monte-Carlo Simulation	Risk free rate, Dividend rate, Discount rate	Volatility Correlation	27.19%~60.47% 0.11 ~0.55	Fair value decreased due to the increase in volatility Fair value decreased due to the increase in correlation
Available-for-sale financial assets	291,128,862	DCF, Net asset value, Cost method	-	Growth rate Discount rate	0%~1% 5.27%~11.94%	Fair value increased due to the increase in growth rate Fair value decreased due to the increase in discount rate
	<u>₩ 596,729,344</u>					
Financial liabilities:						
Financial liabilities held-for-trading	2,114,305	Monte-Carlo Simulation, Net asset value	Risk free rate, Dividend rate, Discount rate, Exchange rate	Recovery rate Correlation	18.88% ~ 27.55% 0.09 ~ 0.34	Fair value increased due to the increase in recovery rate Fair value increased or decreased due to the increase in volatility
Financial liabilities designated at fair value through profit or loss	490,792,826	Monte-Carlo Simulation, Reduced form, Hull&White 1 factor	Risk free rate, Dividend rate, Discount rate, Probability default, Recovery rate	Recovery rate Volatility Correlation	0%~100%, 16.25% ~60.47% 0.11 ~ 0.55	Fair value increased due to the increase in recovery rate Fair value increased or decreased due to the increase in correlation Fair value increased due to the increased in correlation
	<u>₩ 492,907,131</u>					

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

44. 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 by dividing into 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, 2015, 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
Assets:			
Financial assets held for-trading	Adjustment of 10% in unobservable inputs(volatility, recovery rate)	₩ 1,961,846	₩ (1,030,506)
Financial assets designated at fair value through profit or loss	Adjustment of 10% in unobservable inputs(volatility, recovery rate)	191,140	(51,430)
Available-for-sale financial assets	Adjustment 1% of growth rate, discount rate	62,945,861	(17,656,894)
		65,098,847	(18,738,830)
Liabilities:			
Derivative instruments	Adjustment of 10% in unobservable inputs(volatility, recovery rate)	10,210	(4,511)
Financial liabilities designated at fair value through profit or loss	Adjustment of 10% in unobservable inputs(volatility, recovery rate)	3,644,091	(3,414,660)
		3,654,301	(3,419,171)
		₩ 68,753,148	₩ (22,158,001)

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

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

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, 2015 are as follows (Korean won in thousands):

	December 31, 2015				
	Book value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks (*)	₩ 646,068,281	-	₩ 646,068,281	-	₩ 646,068,281
Loans receivable	4,449,846,185	-	-	4,506,142,642	4,506,142,642
CMA (*)	54,820,249	-	-	54,820,249	54,820,249
Lease	471,534,869	-	-	495,303,504	495,303,504
Other financial assets (*)	304,854,846	-	-	304,854,846	304,854,846
	<u>₩ 5,927,124,430</u>	<u>-</u>	<u>₩ 646,068,281</u>	<u>₩ 5,361,121,241</u>	<u>₩ 6,007,189,522</u>
Financial liabilities:					
Deposits (*)	₩ 3,463,870,841	-	₩ 3,463,870,841	-	₩ 3,463,870,841
Borrowings (*)	7,085,058,245	-	7,085,058,245	-	7,085,058,245
Bonds	279,898,600	-	296,360,098	-	296,360,098
Other financial liabilities (*)	457,021,002	-	-	457,021,002	457,021,002
	<u>₩ 11,285,848,688</u>	<u>-</u>	<u>₩ 10,845,289,184</u>	<u>₩ 457,021,002</u>	<u>₩ 11,302,310,186</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

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

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, 2014 are as follows (Korean won in thousands):

	December 31, 2014				
	Book value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and due from banks (*)	₩ 482,828,180	₩ -	₩ 482,828,180	₩ -	₩ 482,828,180
Loans receivable	3,415,625,379	-	-	3,451,938,793	3,451,938,793
CMA (*)	57,903,063	-	-	57,903,063	57,903,063
Lease	605,862,564	-	-	630,883,959	630,883,959
Other financial assets (*)	170,196,474	-	-	170,196,474	170,196,474
	<u>₩ 4,732,415,660</u>	<u>₩ -</u>	<u>₩ 482,828,180</u>	<u>₩ 4,310,922,289</u>	<u>₩ 4,793,750,469</u>
Financial liabilities:					
Deposits (*)	₩ 3,268,978,645	₩ -	₩ 3,268,978,645	₩ -	₩ 3,268,978,645
Borrowings (*)	5,088,920,394	-	5,088,920,394	-	5,088,920,394
Bonds	279,843,608	-	297,930,269	-	297,930,269
Other financial liabilities (*)	447,750,397	-	-	447,750,397	447,750,397
	<u>₩ 9,085,493,044</u>	<u>₩ -</u>	<u>₩ 8,655,829,308</u>	<u>₩ 447,750,397</u>	<u>₩ 9,103,579,705</u>

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

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

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

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, 2015 (Korean won in thousands).

	December 31, 2015	December 31, 2014	Valuation method	Input variables
Financial liabilities:				
Debentures (*)	₩ 296,360,098	₩ 297,930,269	DCF method	Discount rate
(*) If book value is deemed a reasonable proxy to fair value, book value is disclosed as fair value. Therefore, valuation methods or input variables are not disclosed.				

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, 2015 (Korean won in thousands).

	December 31, 2015	December 31, 2014	Valuation method	Input variable	Unobservable input variable
Financial assets (*):					
Loans	₩ 4,506,142,642	₩ 3,451,938,793	DCF method	Discount rate	Credit risk
Lease assets	495,303,504	630,883,959	DCF method	Discount rate	Credit risk
	₩ 5,001,446,146	₩ 4,082,822,752			

(*) If book value is deemed a reasonable proxy to fair value, book value is disclosed as fair value. Therefore, valuation methods or input variables are not disclosed.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

45. Offsetting of financial assets and liabilities

Details of financial assets subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015					
	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 (*)		Net amount
				Enforceable master netting arrangement	Cash collateral received	
Assets:						
Derivatives	₩ 161,586,455	₩ -	₩ 161,586,455	₩ (112,591,726)	₩ -	₩ 48,994,729
Loans						
Repurchase agreement	432,200,000	-	432,200,000	-	(432,200,000)	-
Other assets		-				
Receivable spot exchange	107,821,400	-	107,821,400	(107,806,800)	-	14,600
Difference of uncollected	14,655,475	(12,250,921)	2,404,554	-	-	2,404,554
Dealing receivable	88,831,167	(60,643,043)	28,188,124	-	-	28,188,124
Receivable on margin	252,344,857	(174,683,442)	77,661,415	-	-	77,661,415
	<u>₩ 1,057,439,354</u>	<u>₩ (247,577,406)</u>	<u>₩ 809,861,948</u>	<u>₩ (220,398,526)</u>	<u>₩ (432,200,000)</u>	<u>₩ 157,263,422</u>
Liabilities:						
Derivatives	₩ 134,504,017	₩ -	₩ 134,504,017	₩ (112,591,726)	₩ (11,230,135)	₩ 10,682,156
Securities sold	571,699,111	-	571,699,111	-	(571,699,111)	-
Borrowings						
Repurchase agreement	5,324,808,245	-	5,324,808,245	-	(5,324,808,245)	-
Other liabilities						
Payable spot exchange	107,822,900	-	107,822,900	(107,806,800)	-	16,100
Difference of unsettled	13,966,988	(12,250,921)	1,716,067	-	-	1,716,067
Accounts payable for proprietary trading	70,269,921	(60,643,043)	9,626,878	-	-	9,626,878
Accounts payable on margin	250,794,290	(174,683,442)	76,110,848	-	-	76,110,848
	<u>₩ 6,473,865,472</u>	<u>₩ (247,577,406)</u>	<u>₩ 6,226,288,066</u>	<u>₩ (220,398,526)</u>	<u>₩ (5,907,737,491)</u>	<u>₩ 98,152,049</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

45. Offsetting of financial assets and liabilities (cont'd)

	December 31, 2014					
	Gross amounts of recognized financial instruments	Gross amounts of 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 (*)		Net amount
				Enforceable master netting arrangement	Cash collateral received	
Assets:						
Derivatives	₩ 155,956,934	₩ -	₩ 155,956,934	₩ (127,932,419)	₩ -	₩ 28,024,515
Loans						
Repurchase agreement	413,900,000	-	413,900,000	-	(413,900,000)	-
Other assets						
Difference of uncollected	13,730,719	(12,302,508)	1,428,211	-	-	1,428,211
Dealing receivable	74,936,776	(38,883,486)	36,053,290	-	-	36,053,290
Receivable on margin	225,749,788	(146,552,642)	79,197,146	-	-	79,197,146
	<u>₩ 884,274,217</u>	<u>₩ (197,738,636)</u>	<u>₩ 686,535,581</u>	<u>₩ (127,932,419)</u>	<u>₩ (413,900,000)</u>	<u>₩ 144,703,162</u>
Liabilities:						
Derivatives	₩ 162,522,268	₩ -	₩ 162,522,268	₩ (127,932,419)	₩ (11,952,485)	₩ 22,637,364
Securities sold	962,409,613	-	962,409,613	-	(962,409,613)	-
Borrowings						
Repurchase agreement	3,598,392,974	-	3,598,392,974	-	(3,598,392,974)	-
Other liabilities						
Difference of unsettled	12,993,918	(12,302,508)	691,410	-	-	691,410
Accounts payable for proprietary trading	51,815,417	(38,883,486)	12,931,931	-	-	12,931,931
Accounts payable on margin	224,330,250	(146,552,642)	77,777,608	-	-	77,777,608
	<u>₩ 5,012,464,440</u>	<u>₩ (197,738,636)</u>	<u>₩ 4,814,725,804</u>	<u>₩ (127,932,419)</u>	<u>₩ (4,572,755,072)</u>	<u>₩ 114,038,313</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.

46. Deferred day 1 profit or loss

Changes in deferred day 1 profit or loss, for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	Year ended December 31, 2015		Year ended December 31, 2014	
	Assets	Liabilities	Assets	Liabilities
Beginning	₩ (665,276)	₩ (29,343)	₩ (2,032)	₩ 69,607
Increase	221,693	(55,927)	(827,934)	(63,111)
Decrease	(250,132)	63,585	164,690	(35,839)
Ending	₩ (693,715)	₩ (21,685)	₩ (665,276)	₩ (29,343)

47. 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.

47. Risk Management (cont'd)

Credit risk (cont'd)

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.

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.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

47. Risk Management (cont'd)

Maximum exposure to credit risk

The maximum exposure to credit risk as of December 31, 2015 and 2014 is 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, 2015		December 31, 2014	
On balance accounts:				
Cash and due from banks	₩	646,068,280	₩	482,828,179
Financial assets held-for-trading		6,605,762,262		5,513,469,075
Derivative instruments		146,196,291		150,877,872
Financial assets designated at fair value through profit or loss		35,499,839		31,080,925
Available-for-sale financial assets		390,374,823		307,177,750
Loans		4,594,570,403		3,549,753,200
CMA management assets		55,000,000		58,100,000
Lease assets		477,850,702		612,967,685
Other financial assets		309,878,256		175,161,905
	₩	<u>13,261,200,856</u>	₩	<u>10,881,416,591</u>
Off balance accounts:				
Commitments on loans	₩	3,261,264,354	₩	2,783,963,331
ABCP Purchase agreement		116,059,600		251,876,100
	₩	<u>3,377,323,954</u>	₩	<u>3,035,839,431</u>

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, 2015 and 2014 are as follow (Korean won in thousands):

	December 31, 2015			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Loans:				
Call loans	₩ 1,424,923	₩ -	₩ -	₩ 1,424,923
Repurchase agreement	432,200,000	-	-	432,200,000
Granting of credit	438,078,848	164,626	-	438,243,474
Loans to employees	3,078,501	-	69,746	3,148,247
Loans	3,275,871,114	9,847,763	161,200,549	3,446,919,426
Short-term note trading	178,300,000	-	-	178,300,000
Loans purchased	24,924,809	-	11,672,273	36,597,082
Privately-placed bonds	48,673,997	-	1,752,000	50,425,997
Advance for customers	44,693	-	7,266,561	7,311,254
Allowance for possible loan losses	(22,417,148)	(171,971)	(111,590,143)	(134,179,262)
	<u>4,380,179,737</u>	<u>9,840,418</u>	<u>70,370,986</u>	<u>4,460,391,141</u>
CMA management assets:				
Notes discounted	55,000,000	-	-	55,000,000
Allowance for possible loan losses	(179,751)	-	-	(179,751)
	<u>54,820,249</u>	<u>-</u>	<u>-</u>	<u>54,820,249</u>

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

47. Risk Management (cont'd)

	December 31, 2015			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Lease assets:				
Financial lease receivables	460,460,159	13,215,143	4,175,400	477,850,702
Allowance for possible loan losses	(4,756,787)	(200,746)	(1,358,300)	(6,315,833)
	<u>₩ 455,703,372</u>	<u>₩ 13,014,397</u>	<u>₩ 2,817,100</u>	<u>₩ 471,534,869</u>
Other financial assets (*):				
Other financial assets	305,044,531	-	4,833,726	309,878,257
Allowance for possible loan losses	(151,138)	-	(4,545,534)	(4,696,672)
	<u>304,893,393</u>	<u>-</u>	<u>288,192</u>	<u>305,181,585</u>
	<u>₩ 5,195,596,751</u>	<u>₩ 22,854,815</u>	<u>₩ 73,476,278</u>	<u>₩ 5,291,927,844</u>
	December 31, 2014			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Loans:				
Call loans	₩ 14,432,485	₩ -	₩ -	₩ 14,432,485
Repurchase agreement	413,900,000	-	-	413,900,000
Granting of credit	290,267,380	267,308	-	290,534,688
Loans to employees	3,627,185	-	122,700	3,749,885
Loans	2,372,902,213	5,279,846	151,889,008	2,530,071,067
Notes discounted	176,100,000	-	-	176,100,000
Loans purchased	35,124,541	-	11,678,936	46,803,477
Privately-placed bonds	40,084,639	-	27,033,894	67,118,533
Advance for customers	86,987	-	6,956,078	7,043,065
Allowance for possible loan losses	(14,670,585)	(98,518)	(113,917,280)	(128,587,865)
	<u>3,331,854,845</u>	<u>5,448,636</u>	<u>83,763,336</u>	<u>3,421,165,335</u>
CMA management assets:				
Notes discounted	58,100,000	-	-	58,100,000
Allowance for possible loan losses	(196,937)	-	-	(196,937)
	<u>57,903,063</u>	<u>-</u>	<u>-</u>	<u>57,903,063</u>
Lease assets:				
Financial lease receivables	597,045,110	12,767,852	3,154,723	612,967,685
Allowance for possible loan losses	(6,298,361)	(135,920)	(806,759)	(7,105,120)
	<u>590,746,749</u>	<u>12,631,932</u>	<u>2,347,964</u>	<u>605,862,565</u>
Other financial assets (*):				
Other financial assets	170,193,047	-	4,968,858	175,161,905
Allowance for possible loan losses	-	-	(4,677,667)	(4,677,667)
	<u>170,193,047</u>	<u>-</u>	<u>291,191</u>	<u>170,484,238</u>
	<u>₩ 4,150,697,704</u>	<u>₩ 18,080,568</u>	<u>₩ 86,402,491</u>	<u>₩ 4,255,415,201</u>

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

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

47. Risk Management (cont'd)

Loans that are past due but not impaired as of December 31, 2015 and 2014 consist of the following (Korean won in thousands):

	December 31, 2015		December 31, 2014	
Less than 30 days	₩	12,919,536	₩	16,560,067
30 to 60 days		3,143,735		1,688,175
60 to 90 days		7,164,261		66,764

Impaired loans

The details of impaired loans as of December 31, 2015 and 2014 are as follow (Korean won in thousands) :

	December 31, 2015		December 31, 2014	
	Loans	Allowance for possible loan losses	Loans	Allowance for possible loan losses
Loans:				
Loans to employees	₩ 69,746	₩ 69,746	₩ 122,700	₩ 122,700
Loans	161,200,549	96,337,771	151,889,008	95,030,067
Loans purchased	11,672,273	6,264,064	11,678,936	6,407,475
Privately-placed bonds	1,752,000	1,652,000	27,033,894	5,400,960
Advance for customers	7,266,561	7,266,561	6,956,078	6,956,078
	181,961,129	111,590,142	197,680,616	113,917,280
Lease assets	4,175,400	1,358,300	3,154,723	806,759
Other financial assets:				
Receivables for brokerage	1,141,295	1,141,295	1,156,295	1,153,295
Other receivables	2,703,397	2,415,206	2,712,527	2,424,336
Accrued income	989,034	989,034	1,100,036	1,100,036
	4,833,726	4,545,535	4,968,858	4,677,667
	₩ 190,970,255	₩ 117,493,977	₩ 205,804,197	₩ 119,401,706

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

47. Risk Management (cont'd)

Details on the classification of total loans receivable as of December 31, 2015 and 2014 consist of the following (Korean won in thousands):

	December 31, 2015							Allowance for possible loan losses
	Amount	Classification						
		Normal	Pre-cautionary	Substandard	Doubtful	Estimated loss		
Loans:								
Call loans	₩ 1,424,923	₩ 1,424,923	₩ -	₩ -	₩ -	₩ -	₩ -	-
Repurchase agreements	432,200,000	432,200,000	-	-	-	-	-	-
Broker's loan	438,243,474	438,243,474	-	-	-	-	-	-
Loans to employees	3,148,247	3,078,501	-	-	-	69,746	69,746	
Loans	3,446,919,426	3,224,388,366	76,330,510	61,596,439	8,279,291	76,324,820	117,153,322	
Notes discounted	178,300,000	178,300,000	-	-	-	-	-	340,284
Loans purchased	36,597,082	24,924,809	-	6,578,990	-	5,093,283	6,706,712	
Privately-placed bonds	50,425,997	50,425,997	-	-	-	-	-	152,136
Advance for customers	7,311,254	44,693	-	-	-	7,266,561	7,266,561	
	4,594,570,403	4,353,030,763	76,330,510	68,175,429	8,279,291	88,754,410	131,688,761	
CMA management assets:								
CMA Short-term note trading	55,000,000	55,000,000	-	-	-	-	-	179,751
Lease assets:								
Financial lease receivables	477,850,702	470,421,356	3,253,946	3,014,063	-	1,161,337	6,315,833	
Other financial assets:								
Accounts receivable	155,316,910	144,879,003	6,585,756	-	454,020	3,398,131	3,715,097	
Receivable spot exchange	107,821,400	107,821,400	-	-	-	-	-	-
Accrued income	38,319,211	37,337,636	-	-	-	981,575	981,575	
Others	8,420,735	8,420,735	-	-	-	-	-	-
	309,878,256	298,458,774	6,585,756	-	454,020	4,379,706	4,696,672	
	₩ 5,437,299,361	₩ 5,176,910,893	₩ 86,170,212	₩ 71,189,492	₩ 8,733,311	₩ 94,295,453	₩ 142,881,017	

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

47. Risk Management (cont'd)

	December 31, 2014							Allowance for possible loan losses
	Amount	Classification						
		Normal	Pre-cautionary	Substandard	Doubtful	Estimated loss		
Loans:								
Call loans	₩ 14,432,485	₩ 14,432,485	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -
Repurchase agreements	413,900,000	413,900,000	-	-	-	-	-	-
Broker's loan	290,534,688	290,534,688	-	-	-	-	-	-
Loans to employees	3,749,885	3,627,185	-	-	-	122,700	122,700	
Loans	2,530,071,067	2,352,196,622	25,985,438	64,991,526	6,718,912	80,178,569	108,882,711	
Notes discounted	176,100,000	176,100,000	-	-	-	-	542,155	
Loans purchased	46,803,477	35,124,541	-	6,852,151	-	4,826,785	6,414,014	
Privately-placed bonds	67,118,533	26,402,640	13,682,000	21,572,878	584,109	4,876,906	5,670,207	
Advance for customers	7,043,065	86,987	-	-	-	6,956,078	6,956,078	
	3,549,753,200	3,312,405,148	39,667,438	93,416,555	7,303,021	96,961,038	128,587,865	
CMA management assets:								
CMA Short-term note trading	58,100,000	58,100,000	-	-	-	-	196,937	
Lease assets:								
Financial lease receivables	612,967,685	608,054,948	1,758,013	2,523,505	-	631,219	7,105,120	
Other financial assets:								
Accounts receivable	127,176,984	123,308,162	-	-	454,020	3,414,802	3,577,631	
Accrued income	40,404,189	39,304,153	-	-	-	1,100,036	1,100,036	
Others	7,580,732	7,580,732	-	-	-	-	-	
	175,161,905	170,193,047	-	-	454,020	4,514,838	4,677,667	
₩	4,395,982,790	₩ 4,148,753,143	₩ 41,425,451	₩ 95,940,060	₩ 7,757,041	₩ 102,107,095	₩ 140,567,589	

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

47. Risk Management (cont'd)

Details on the classification of due from banks and debt securities on credit soundness as of December 31, 2015 and 2014 consist of the following (Korean won in thousands):

	December 31, 2015			December 31, 2014		
	Financial assets held-for-trading (*)	Financial assets designated at fair value through profit or loss (*)	Available-for-sale financial assets (*)	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	₩ 4,158,346,399	₩ -	₩ 285,785,432	₩ 2,122,153,933	₩ -	₩ 233,422,245
AAA	1,541,074,181	-	-	2,385,567,036	-	-
AA- to AA+	402,661,002	30,681,530	-	395,220,236	29,928,402	10,186,404
A- to A+	5,781,926	-	7,208,903	20,855,122	-	9,180,655
Less A-	106,570,288	-	39,174,879	202,103,664	-	22,530,841
Unrated	-	-	37,508,187	-	-	30,946,413
	6,214,433,796	30,681,530	369,677,401	5,125,899,991	29,928,402	306,266,558
CP:						
A1	178,182,131	-	-	62,072,102	-	-
A2 to A3	213,146,335	-	20,014,696	325,496,982	-	-
Less B	-	-	682,726	-	-	911,192
	391,328,466	-	20,697,422	387,569,084	-	911,192
	₩ 6,605,762,262	₩ 30,681,530	₩ 390,374,823	₩ 5,513,469,075	₩ 29,928,402	₩ 307,177,750

(*) The Group surveyed the credit soundness on debt securities in financial assets. In case of other financial assets, credit risk is not taken into consideration or rating of credit soundness cannot be calculated due to their nature of business.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

47. Risk Management (cont'd)

Details of industrial credit exposure classified by Korean Standard Industrial Classification as of December 31, 2015 and 2014 consist of the following (Korean won in thousands):

	December 31, 2015						Total
	Finance and insurance	Manufacturing	Wholesale and retailing	Construction	Others		
Cash and due from banks	₩ 646,068,280	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 646,068,280
Financial assets held-for-trading (*)	2,005,508,994	1,423,633	-	-	4,598,829,635	-	6,605,762,262
Derivative instrument assets (*)	146,196,291	-	-	-	-	-	146,196,291
Financial assets designated at fair value through profit or loss (*)	4,818,308	9,971,169	-	-	20,710,362	-	35,499,839
Available-for-sale financial assets (*)	62,956,682	-	-	579,143	326,838,998	-	390,374,823
Loans	1,304,763,986	59,134,768	23,934,675	1,397,451,466	1,809,285,508	-	4,594,570,403
CMA	25,000,000	15,000,000	-	-	15,000,000	-	55,000,000
Lease assets	66,097,400	70,192,553	53,668,107	22,526,054	265,366,588	-	477,850,702
Other financial assets	138,414,078	-	-	-	171,500,641	-	309,914,719
	₩ 4,399,824,019	₩ 155,722,123	₩ 77,602,782	₩ 1,420,556,663	₩ 7,207,531,732	₩ -	₩ 13,261,237,319

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

47. Risk Management (cont'd)

	December 31, 2014						Total
	Finance and insurance	Manufacturing	Wholesale and retailing	Construction	Others		
Cash and due from banks	₩ 482,828,179	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 482,828,179
Financial assets held-for-trading (*)	2,880,408,678	51,379,261	-	14,302,963	2,567,378,173	-	5,513,469,075
Derivative instrument assets (*)	150,877,872	-	-	-	-	-	150,877,872
Financial assets designated at fair value through profit or loss (*)	1,152,523	-	-	-	29,928,402	-	31,080,925
Available-for-sale financial assets (*)	69,269,089	-	-	1,492,731	236,415,930	-	307,177,750
Loans	1,211,293,150	35,817,393	41,180,813	647,248,539	1,614,213,305	-	3,549,753,200
CMA	40,000,000	9,700,000	-	-	8,400,000	-	58,100,000
Lease assets	117,105,988	112,264,546	104,922,848	21,789,831	256,884,472	-	612,967,685
Other financial assets	37,481,501	-	-	-	137,680,404	-	175,161,905
	₩ 4,990,416,980	₩ 209,161,200	₩ 146,103,661	₩ 684,834,064	₩ 4,850,900,686	₩ -	₩ 10,881,416,591

(*) 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

47. Risk Management (cont'd)

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.

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

47. Risk Management (cont'd)

The residual maturity of non-derivative financial instruments as of December 31, 2015 and 2014 consists of the following (Korean won in thousands):

	December 31, 2015						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	
Assets							
Cash and due from banks	₩ 643,243,132	₩ 1,890	₩ -	₩ -	₩ -	₩ 2,823,258	₩ 646,068,280
Financial assets held-for-trading	4,636,725,744	440,510,942	17,634,897	145,447,286	205,889,956	1,159,553,437	6,605,762,262
Financial assets designated at fair value through profit or loss	30,681,530	779,922	410,764	-	227,091	3,400,532	35,499,839
Available-for-sale financial assets (*1)	302,189,705	-	579,143	-	29,150,920	58,455,055	390,374,823
Loans (*2)	487,348,808	188,116,684	598,839,940	547,319,354	1,090,606,717	1,682,338,900	4,594,570,403
CMA	-	10,000,000	15,000,000	20,000,000	10,000,000	-	55,000,000
Lease assets	2,879,676	15,506,533	35,778,007	51,390,010	90,677,203	281,619,273	477,850,702
Other financial assets (*3)	216,075,493	-	87,786,582	-	-	6,016,181	309,878,256
	₩ 6,319,144,088	₩ 654,915,971	₩ 756,029,333	₩ 764,156,650	₩ 1,426,551,887	₩ 3,194,206,636	₩ 13,115,004,565
Liabilities							
Deposits (*3)	₩ 501,278,477	₩ 45,993,509	₩ 217,371,342	₩ 288,360,754	₩ 2,318,170,258	₩ 107,385,614	₩ 3,478,559,954
Financial liabilities held-for-trading	99,418	10,447,708	2,293,228	8,745,651	521,746,390	28,366,716	571,699,111
Financial liabilities designated at fair value through profit or loss	2,009,175	89,470,150	79,721,930	151,609,672	33,417,975	135,188,932	491,417,834
Borrowings	4,024,930,390	941,916,117	390,819,318	162,800,000	437,500,000	1,127,092,420	7,085,058,245
Debentures	-	-	-	-	-	280,100,000	280,100,000
Other financial liabilities	195,276,694	-	232,055,491	-	-	29,688,817	457,021,002
	₩ 4,723,594,154	₩ 1,087,827,484	₩ 922,261,309	₩ 611,516,077	₩ 3,310,834,623	₩ 1,707,822,499	₩ 12,363,856,146

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

47. Risk Management (cont'd)

	December 31, 2014						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	
Assets							
Cash and due from banks	₩ 474,604,549	₩ 78,117	₩ 5,100,000	₩ 247,191	₩ 2,711,422	₩ 86,900	₩ 482,828,179
Financial assets held-for-trading	4,392,961,255	391,463,463	167,054,856	129,306,361	320,191,245	112,491,895	5,513,469,075
Financial assets designated at fair value through profit or loss	-	-	222,235	53,855	-	30,804,835	31,080,925
Available-for-sale financial assets (*1)	245,300,816	-	-	23,359,998	3,329,102	35,187,834	307,177,750
Loans (*2)	457,403,559	124,317,066	465,255,309	282,813,861	490,160,734	1,729,802,671	3,549,753,200
CMA	-	3,400,000	19,700,000	25,000,000	10,000,000	-	58,100,000
Lease assets	3,202,813	16,746,090	41,085,162	57,851,506	106,971,362	387,110,752	612,967,685
Other financial assets (*3)	116,678,646	-	41,673,275	335,124	4,898,810	11,576,050	175,161,905
	₩ 5,690,151,638	₩ 536,004,736	₩ 740,090,837	₩ 518,967,896	₩ 938,262,675	₩ 2,307,060,937	₩ 10,730,538,719
Liabilities							
Deposits (*3)	₩ 351,740,442	₩ 35,353,461	₩ 205,418,065	₩ 226,035,497	₩ 2,341,942,223	₩ 126,965,970	₩ 3,287,455,658
Financial liabilities held-for-trading	81,202,637	-	-	-	-	881,206,976	962,409,613
Financial liabilities designated at fair value through profit or loss	20,863,094	110,534,442	44,628,880	67,906,823	14,529,808	62,589,331	321,052,378
Borrowings	2,913,083,607	733,007,100	1,033,369,716	304,459,971	-	105,000,000	5,088,920,394
Debtentures	-	-	-	-	-	280,100,000	280,100,000
Other financial liabilities	91,434,959	-	130,537,562	5,794,735	2,096,767	217,888,313	447,752,336
	₩ 3,458,324,739	₩ 878,895,003	₩ 1,413,954,223	₩ 604,197,026	₩ 2,358,568,798	₩ 1,673,750,590	₩ 10,387,690,379

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

47. Risk Management (cont'd)

(*1) Non-marketable equity securities, collective investment securities, foreign currency securities and others are excluded from available-for-sale financial assets.

(*2) Advance for customers, deferred loan fees and present value discount are excluded from loans.

(*3) Present value discount of other assets and due from banks are excluded.

(*4) Commitments mentioned in Note 39-3 are the probable maximum exposure which the Group might liquidate according to the contracts in the future. The Group expects that actual payment will be less than maximum exposure according to its past transaction experience and the characteristics of the commitments. It is difficult for the Group to expect actual timing, amount and probability of settlement of the commitments.

The marketable non-derivative financial instruments are classified as within one week's maturity and non-marketable non-derivative financial instruments are classified as contractual maturity.

The residual maturity of derivative financial instruments as of December 31, 2015 and 2014 consists of the following (Korean won in thousands):

	December 31, 2015					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	
Exchange-traded derivatives	₩ 12,296	₩ 2,153,718	₩ (223,642)	₩ (737,141)	₩ (221,670)	₩ 5,093,119
Over-the-counter derivatives:						
Interests	273,257	(369,982)	30,300	(1,026,841)	1,247,509	(1,357,326)
Currency	(1,075,600)	(1,907,913)	(5,687,089)	4,366,823	13,050	17,947,114
Stock	-	-	-	965,522	(2,108,024)	2,264,116
Credit	-	-	-	-	-	1,071,624
Others	2,085	4,807	28,704	(713,651)	718,994	3,744,927
	₩ (800,258)	₩ (2,273,088)	₩ (5,628,085)	₩ 3,591,853	₩ (128,471)	₩ 23,824,698
	₩ (787,962)	₩ (119,370)	₩ (5,851,727)	₩ 2,854,712	₩ (350,141)	₩ 28,917,817

Meritz Securities Co., Ltd. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

47. Risk Management (cont'd)

	December 31, 2014						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	
Exchange-traded derivatives	₩ 949,332	₩ -	₩ 97,719	₩ -	₩ -	₩ 23,465	₩ 1,070,516
Over-the-counter derivatives:							
Interests	243,411	(353,044)	924,653	(1,960,994)	25,596	(4,643,159)	(5,763,537)
Currency	-	(66,224)	(2,563,986)	(421,956)	(909,150)	-	(3,961,316)
Stock	-	-	-	-	478,673	2,835,181	3,313,854
Credit	-	-	-	-	-	877,977	877,977
Others	-	-	-	-	-	(2,102,829)	(2,102,829)
	₩ 243,411	₩ (419,268)	₩ (1,639,333)	₩ (2,382,950)	₩ (404,881)	₩ (3,032,830)	₩ (7,635,851)
	₩ 1,192,743	₩ (419,268)	₩ (1,541,614)	₩ (2,382,950)	₩ (404,881)	₩ (3,009,365)	₩ (6,565,335)

47. Risk Management (cont'd)

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 short-term 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.

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, 2015 and 2014 consist of the following (Korean won in thousands):

	December 31, 2015	Average	Max	Min	December 31, 2014
Interest rates risk	₩ 3,190,860	₩ 3,850,011	₩ 6,256,654	₩ 2,759,542	₩ 1,369,187
Stock price risk	5,355,450	4,859,955	9,279,733	3,241,212	2,055,882
Foreign exchange rates risk	3,519,675	3,332,466	4,869,974	1,191,421	1,996,068
Total risk	<u>₩ 12,065,985</u>	<u>₩ 12,042,432</u>			<u>₩ 5,421,137</u>

47. Risk Management (cont'd)

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.

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.

- Equity in the consolidated financial statements: In accordance with the Regulation on Financial Investment Services 3-10, it is measured as equity in the consolidated financial statements.

- Subtraction: In accordance with the Regulation on Financial Investment Services 3-14, it is measured as property and equipment, advance payments, prepaid income taxes, deferred tax assets, prepaid expenses, due from banks with maturity of over 1 year, loans with maturity of over three months, balances with related parties, a deficit of subsidiaries, deposits for debt, leasehold deposits provided and leasehold rights.

- Addition: In accordance with the Regulation on Financial Investment Services 3-12, allowance for possible loan losses and subordinated borrowings classified as normal or precautionary are measured.

- Market risk: In accordance with the Regulation on Financial Investment Services 3-15 it is measured as the sum of stock risk, interest risk, foreign exchange risk, collective investment securities risk, commodity risk, and option risk.

- Credit risk : In accordance with the Regulation on Financial Investment Services 3-22, the Group measures credit rate risk of the following financial instruments:

- Due from banks and call loans
- Lending or borrowing of securities
- Securities purchased under agreements to resell at a specified future date ("reverse repos") and securities sold under agreements to repurchase at a specified future date ("repos")
- Broker's loans receivable
- Deposits for debt
- Loan, accounts receivables, accrued income and others
- Leasehold deposits provided and leasehold rights with a three month maturity or less.
- Futures, forwards, swap and others

47. Risk Management (cont'd)

- Operational risk : In accordance with the Regulation on Financial Investment Services 3-22, it is measured by the sum of legal minimum capital * 10% and operating income of operating segment reflecting risk rate.

NCR as of December 31, 2015 and 2014 consist of the following (Korean won in millions):

	December 31, 2015		December 31, 2014	
Net operating capital	₩	1,260,451	₩	640,948
Total risk		215,272		163,942
NCR		585.52%		390.96%

48. Merger

By the resolution of the board of directors on December 29, 2014, the Group entered into a merger contract with I'M Investment & Securities Co., Ltd. By the merger contract, I'M Investment & Securities Co., Ltd. would be an extinct company, and the Group would be a surviving company. The merger will be proceeded as planned, and the date of the merger will be May 31, 2015.

The Group newly issued 66,811,951 shares based on the ratio of 1.5184534 per one ordinary share of I'M Investment & Securities Co., Ltd. The Group recorded this merger as capital transaction between shareholders since the merger between the Group and I'M Investment & Securities Co., Ltd. is equivalent to the Group's acquisition of 100% of the non-controlling interest of I'M Investment & Securities Co., Ltd.

49. Approval of financial statements

The 2015 consolidated financial statements were approved by the board of directors on February 4, 2016.