

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

Consolidated financial statements  
for the years ended December 31, 2017 and 2016  
with the independent auditors' report



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Independent auditors' report

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## Independent auditors' report

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

We have audited the accompanying consolidated financial statements of Meritz Securities Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and 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, 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 audits 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 auditors consider 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 the Group as at December 31, 2017 and 2016, and its financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.



March 8, 2018

This audit report is effective as at March 8, 2018, 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, 2017 and 2016

“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.

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Consolidated statements of financial position**  
**as at December 31, 2017 and 2016**

(Korean won in thousands)

	<u>Notes</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
<b>Assets</b>			
Cash and due from banks	7, 37, 43, 44, 47	₩ 1,403,474,941	₩ 816,956,144
Financial assets at fair value through profit or loss	8, 23, 37, 43, 44, 45, 47	9,919,881,110	8,051,294,747
Available-for-sale financial assets	9, 37, 43, 44, 47	1,251,665,821	1,574,562,097
Investments in associates and joint ventures	10, 37	209,734,766	231,751,610
Loans	11, 43, 44, 45, 47	8,523,643,031	5,477,539,160
CMA	11, 43, 44, 47	4,994,458	28,009,548
Lease assets	12, 43, 44, 47	1,107,606,416	260,006,034
Property and equipment	13	98,193,071	99,645,669
Investment property	14	12,620,166	21,163,351
Intangible assets	15	35,015,128	35,713,934
Tax assets	35	82,969,767	65,029,381
Other assets	16, 37, 43, 44, 45, 47	800,766,537	606,141,558
<b>Total assets</b>		<b>₩ 23,450,565,212</b>	<b>₩ 17,267,813,233</b>
<b>Liabilities</b>			
Deposits	17, 37, 43, 44, 47	₩ 3,231,933,356	₩ 3,102,818,819
Financial liabilities at fair value through profit or loss	18, 23, 37, 43, 44, 45, 47	2,300,300,574	2,626,203,945
Borrowings	19, 43, 44, 45, 47	13,676,507,197	8,974,565,294
Provisions	20, 39	2,070,024	10,186,258
Defined benefit liabilities	21	-	2,628,149
Tax liabilities	35	55,107,460	14,966,779
Other liabilities	22, 37, 43, 44, 45, 47	872,043,222	658,133,762
<b>Total liabilities</b>		<b>₩ 20,137,961,833</b>	<b>₩ 15,389,503,006</b>
<b>Equity</b>			
Issued capital	24	₩ 717,488,890	₩ 496,638,534
Capital surplus and adjustments	25, 26	1,405,316,988	553,151,474
Accumulated other comprehensive income	27	80,223,319	79,007,653
Retained earnings	28	1,009,829,682	749,512,566
<b>Equity attributable to equity holder of the parent</b>		<b>3,212,858,879</b>	<b>1,878,310,227</b>
<b>Non-controlling shareholders' equity</b>		<b>99,744,500</b>	<b>-</b>
<b>Total equity</b>		<b>₩ 3,312,603,379</b>	<b>₩ 1,878,310,227</b>
<b>Total liabilities and equity</b>		<b>₩ 23,450,565,212</b>	<b>₩ 17,267,813,233</b>

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

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Consolidated statements of profit or loss and other comprehensive income**  
**for the years ended December 31, 2017 and 2016**

(Korean won in thousands)

	Notes	Year ended December 31, 2017	Year ended December 31, 2016
<b>Operating revenue:</b>			
Commission income	29	₩ 412,855,859	₩ 343,273,840
Gain on valuation and disposal of financial instruments	30	814,007,934	498,547,762
Gain on derivative valuation and transactions	23, 30	2,676,974,758	2,560,164,797
Interest income	31	662,883,624	478,379,756
Gain on valuation and disposal of loans	11	4,856,228	8,294,777
Gain on foreign exchange transactions		628,670,373	1,009,782,003
Lease income	12	64,337,307	27,107,273
Others	33	32,879,578	21,051,457
		<u>5,297,465,661</u>	<u>4,946,601,665</u>
<b>Operating expenses:</b>			
Commission expenses	29	(41,732,258)	(29,693,021)
Loss on valuation and disposal of financial instruments	30	(748,702,915)	(502,413,130)
Loss on derivative valuation and transactions	23, 30	(2,676,153,078)	(2,497,752,034)
Interest expenses	31	(299,411,197)	(242,891,204)
Loss on valuation and disposal of loans	11	(35,831,948)	(11,352,283)
Loss on foreign exchange transactions		(623,186,865)	(1,009,575,611)
General and administrative expenses	32	(404,788,766)	(319,643,722)
Lease expense	12	(20,789,442)	(1,052,273)
Others	33	(3,286,711)	(5,372,412)
		<u>(4,853,883,180)</u>	<u>(4,619,745,690)</u>
<b>Operating income</b>		<b>443,582,481</b>	<b>326,855,975</b>
Other income	34	28,074,415	8,630,514
Other expenses	34	(5,286,694)	(2,883,630)
Income before income taxes		<u>466,370,202</u>	<u>332,602,859</u>
<b>Income tax expense</b>	35	<b>(111,133,006)</b>	<b>(78,756,155)</b>
<b>Net income</b>	28	<b>₩ 355,237,196</b>	<b>₩ 253,846,704</b>
<b>Other comprehensive income:</b>			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement gain (loss) on defined benefit plan	21	391,365	(36,999)
Items that may be reclassified subsequently to profit or loss:			
Net gain on available-for-sale financial assets	9	1,443,576	8,970,776
Exchange differences on translation of foreign operations		(73,451)	(10,155)
Capital change in equity method		(545,824)	545,824
		<u>1,215,666</u>	<u>9,469,446</u>
<b>Total comprehensive income:</b>		<b>₩ 356,452,862</b>	<b>₩ 263,316,150</b>
Controlling interests		352,233,188	263,316,150
Non-controlling interests		4,219,674	-
<b>Basic earnings per share</b>	36	<b>₩ 634</b>	<b>₩ 560</b>
<b>Diluted earnings per share</b>	36	<b>₩ 600</b>	<b>₩ 560</b>

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

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Consolidated statements of changes in equity**  
**for the years ended December 31, 2017 and 2016**  
(Korean won in thousands)

	<b>Issued capital</b>	<b>Capital surplus</b>	<b>Accumulated other comprehensive income</b>	<b>Retained earnings</b>	<b>Non-controlling shareholders' equity</b>	<b>Total</b>
As at January 1, 2016	₩ 496,638,534	₩ 552,416,177	₩ 69,538,207	₩ 599,971,328	₩ -	₩ 1,718,564,246
Dividends	-	-	-	(104,305,466)	-	(104,305,466)
Total comprehensive income:						
Net income	-	-	-	253,846,704	-	253,846,704
Other comprehensive income:						
Remeasurements of the net defined benefit liabilities	-	-	(36,999)	-	-	(36,999)
Gain (loss) on valuation of available-for-sale financial assets	-	-	8,970,776	-	-	8,970,776
Capital change in equity method	-	-	545,824	-	-	545,824
Gain (loss) on foreign currency transactions	-	-	(10,155)	-	-	(10,155)
Allocated expense , of stock options	-	735,297	-	-	-	735,297
As at December 31, 2016	₩ 496,638,534	₩ 553,151,474	₩ 79,007,653	₩ 749,512,566	₩ -	₩ 1,878,310,227

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

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, 2017 and 2016**  
(Korean won in thousands)

	Year ended December 31, 2017	Year ended December 31, 2016
<b>Operating activities:</b>		
Net income before income taxes	₩ 466,370,202	₩ 332,602,859
Adjustments to non-cash items :		
Loss (gain) on valuation of financial instruments held-for-trading	(6,834,566)	21,221,231
Loss (gain) on derivative valuation, net	18,309,253	(18,171,280)
Loss (gain) on valuation of financial assets designated at fair value through profit or loss, net	(22,879,597)	12,776,898
Gain on evaluation of other financial instruments, net	(1,026)	(6,016)
Provision of allowance for doubtful accounts	38,045,890	11,071,679
Provision of other allowance for doubtful accounts	1,035,758	197,549
Loss (gain) on foreign currency translation, net	5,275,142	(2,310,496)
Depreciation of property and equipment	7,295,108	5,891,509
Amortization of intangible assets	5,705,156	7,109,290
Depreciation expenses on operating lease assets	12,222,266	242,586
Loss (gain) related to financial investments available-for-sale, net	1,285,205	(5,362,532)
Loss related to lease, net	-	(22,743)
Contribution to provision (reversal)	(8,206,944)	3,693,244
Provision (reversal) of credit risk adjustments	182,224	(71,309)
Day 1 profit or loss adjustments (reversal)	(5,542,843)	120,786
Post-employment benefit	4,485,969	4,382,567
Loss (gain) on valuation of incentives	15,756,359	(6,457,233)
Compensation expenses associated with stock option	3,411,064	735,297
Other operating revenues	(192,921)	(695,020)
Loss (gain) on disposal of property and equipment, net	(1,011,481)	235,249
Loss (gain) on disposal of investment property	(1,589,070)	85,597
Gain on disposal of intangible assets, net	(540,567)	(244,305)
Gain on disposal of investments in associates, subsidiaries and joint venture, net	(4,815,743)	(875,416)
Gain in equity method	(14,394,853)	(2,453,020)
Impairment loss on investments in associates and joint venture (reversal)	-	(34,661)
Interest income	(697,850,831)	(502,991,670)
Interest expense	299,411,197	242,891,204
Dividend income	(13,504,392)	(13,474,703)
	(364,944,243)	(242,515,718)
Changes in operating assets and liabilities:		
Cash and due from banks	(201,670,657)	(59,170,369)
Held-for-trading financial assets	(1,678,786,932)	(547,914,581)
Financial assets at fair value through profit or loss	(183,826,799)	(94,051,657)
Loans	(1,616,055,885)	(1,028,417,146)
CMA	23,100,000	26,900,000
Lease assets	(97,336,649)	212,694,088
Other assets	(184,926,304)	(237,711,408)
Due to customers	6,716,011	(368,826,811)
Held-for-trading financial liabilities	(130,072,358)	1,278,318,269
Financial liabilities at fair value through profit or loss	(207,150,631)	155,774,833
Provisions	(371,322)	(773,622)
Defined benefit liabilities	(6,597,873)	(3,309,775)
Other liabilities	202,720,792	96,925,870
	(4,074,258,608)	(569,562,309)
Total interest received	684,453,204	461,509,698
Total interest paid	(280,975,088)	(232,003,147)
Total dividends received	8,444,052	12,929,783
Income tax paid	(89,796,014)	(161,846,522)
<b>Net cash flows used in operating activities</b>	<b>(3,650,706,495)</b>	<b>(398,885,356)</b>

(Continued)



**Meritz Securities Co., Ltd. and its subsidiaries**  
**Consolidated statements of cash flows**  
**for the years ended December 31, 2017 and 2016 (cont'd)**  
(Korean won in thousands)

	December 31, 2017	December 31, 2016
<b>Investing activities:</b>		
Disposal of financial assets available-for-sale	₩ 2,707,274,226	₩ 1,820,102,518
Disposal of investment associates and joint venture	104,939,401	410,649,725
Receipt of dividends from associates	15,709,359	2,515,298
Disposal of property and equipment	4,079,157	292,214
Disposal of investment property	9,286,941	8,246,382
Decrease in intangible assets	2,538,645	2,175,007
Decrease in guarantee deposits	880,000	632,588
Disposal of investments in subsidiaries	436,548,916	-
Acquisition of financial assets available-for-sale	(2,477,969,385)	(2,615,309,352)
Acquisition of investment associates and joint venture	(53,600,000)	(615,771,561)
Acquisition of property and equipment	(4,756,866)	(3,835,109)
Acquisition of intangible assets	(2,777,380)	(3,872,753)
Increase in guarantee deposits	(6,084,000)	(1,691,326)
Acquisition of investments in subsidiaries	-	(307,945)
<b>Net cash flows provided by (used in) investing activities</b>	<b>736,069,014</b>	<b>(996,174,314)</b>
<b>Financing activities:</b>		
Increase in borrowings, net	1,648,005,110	1,609,550,628
Increase in short-term bonds, net	403,000,000	-
Issue of bonds	1,605,556,348	-
Issue of convertible callable preferred stock	746,604,561	-
Redemption of bonds	(1,022,726,460)	-
Dividends paid	(90,700,406)	(104,305,466)
Dividends paid of hybrid bond	(4,219,674)	-
Transaction costs on issue of shares	(582,072)	-
Transaction costs on issue of subsidiaries shares	(96,000)	-
Acquisition of treasury stocks	(5,883)	-
<b>Net cash provided by financing activities</b>	<b>3,284,835,524</b>	<b>1,505,245,162</b>
<b>Net increase in cash and cash equivalents</b>	<b>370,198,043</b>	<b>110,185,492</b>
<b>Effect from exchange rate changes on cash and cash equivalents</b>	<b>(1,036,725)</b>	<b>776,176</b>
<b>Cash and cash equivalents at the beginning of the year (Note 7)</b>	<b>657,187,591</b>	<b>546,225,923</b>
<b>Cash and cash equivalents at the end of the year (Note 7, 41)</b>	<b>₩ 1,026,348,909</b>	<b>₩ 657,187,591</b>

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

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2017 and 2016**

**1. Group information**

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

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

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

The Company is listed on the Korea Exchange ("KRX"), and the major shareholders of the Company as at December 31, 2017 are as follows:

Shareholders	Number of shares		Percentage of ownership (%)	
	Common Stock	Preferred Stock	Common Stock	Preferred Stock
Meritz Financial Group Inc. ("Meritz FG")	269,704,840	-	44.53	-
Cho Jeong Ho	6,424,646	-	1.06	-
Treasury stock	43,138,195	-	7.12	-
Others	286,373,391	111,847,818	47.29	100.00
	605,641,072	111,847,818	100.00	100.00

**2. Scope of consolidation**

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

Investee	December 31, 2017				
	Country	Ownership (%)	Company	Main Business	Type of control
Meritz Capital Co., Ltd.	Korea	100.00	Financial business	Credit specialized financial business	Equity holding
G New Jump Short-Term Bond Investment Trust 1	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
RREEF SPEZIAL INVEST GmbH trust of security contract	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
Eugene Separate Taxation High-Yield PE No.2	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
Eugene Separate Taxation High-Yield PE No.7	Korea	99.74	Investment fund and trust	Investment in securities etc.	Equity holding
Yurie Separate Taxation High-Yield PE No.1	Korea	99.74	Investment fund and trust	Investment in securities etc.	Equity holding
Kiwoom Separate Taxation High-Yield No.2	Korea	99.74	Investment fund and trust	Investment in securities etc.	Equity holding
Koreit Separate Taxation High-Yield PE No.4	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
Sparx Separate Taxation High-Yield No.1	Korea	99.66	Investment fund and trust	Investment in securities etc.	Equity holding
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

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2017 and 2016**

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

December 31, 2017					
Investee	Country	Owners hip (%)	Company	Main Business	Type of control
Lime Investment Trust 1st	Korea	92.50	Special purpose company	Securitization of backed asset	ABS holding, a shareholder with the right of residuary estate
Olion IPO Multi Strategy Investment Trust 2nd	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
Olion IPO Multi Strategy Investment Trust 2nd C-I	Korea	66.67	Investment fund and trust	Investment in securities etc.	Equity holding
Areumdeuri Investment Private Trust 1st	Korea	94.00	Investment fund and trust	Investment in securities etc.	Equity holding
Bluetech Multi Fund Specialty Investment Trust 1st	Korea	91.67	Investment fund and trust	Investment in securities etc.	Equity holding
Hastings Investment Private Trust 1st	Korea	94.00	Investment fund and trust	Investment in securities etc.	Equity holding
Bros IPO Investment Private Trust 1st	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
Human Investment Trust	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
Capstone EU Investment Private Trust 1st	Korea	99.63	Investment fund and trust	Investment in securities etc.	Equity holding
CSBER01 HOLDCo	Germany	99.63	Investment fund and trust	Investment in securities etc.	Equity holding
CSBER01 PROPCo A	Germany	99.63	Investment fund and trust	Investment in securities etc.	Equity holding
CSBER01 PROPCo B	Germany	99.63	Investment fund and trust	Investment in securities etc.	Equity holding
Assetone Private Investment Trust 1st	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
Milestone Private Investment Trust 1st	Korea	100.00	Investment fund and trust	Investment in securities etc.	Equity holding
BNK High Yield Investment 1st	Korea	99.66	Investment fund and trust	Investment in securities etc.	Equity holding
Smart-S 10th Securitization	Korea	1.00	Special purpose company	Securitization of backed asset	ABS holding, a shareholder with the right of residuary estate
Meritz Securitization Specialty Co., Ltd.	Korea	0.90	Special purpose Company	Securitization of backed asset	A shareholder with the right of residuary estate
Meritz Auto Second Securitization Specialty Co., Ltd.	Korea	-	Special purpose Company	Securitization of backed asset	ABS holding, a shareholder with the right of residuary estate
Meritz Auto Third Securitization Specialty Co., Ltd.	Korea	-	Special purpose Company	Securitization of backed asset	ABS holding, a shareholder with the right of residuary estate
Meritz Auto Fourth Securitization Specialty Co., Ltd.	Korea	-	Special purpose Company	Securitization of backed asset	ABS holding, a shareholder with the right of residuary estate
Meritz Auto Fifth Securitization Specialty Co., Ltd.	Korea	-	Special purpose Company	Securitization of backed asset	ABS holding, a shareholder with the right of residuary estate
Meritz Auto Sixth Securitization Specialty Co., Ltd.	Korea	-	Special purpose company	Securitization of backed asset	ABS holding, a shareholder with the right of residuary estate

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2017 and 2016**

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

Investee	December 31, 2017				
	Country	Ownership (%)	Company	Main Business	Type of control
New Commons 1st	Korea	-	Special purpose company	Investment in securities etc.	General loan
Haeundae Project 1st	Korea	-	Loans on real estates	Loans on real estates	Mortgage loan commitment and general loan
Haeundae Project 2nd	Korea	-	Loans on real estates	Loans on real estates	Mortgage loan commitment and general loan
Sanbon Master Plaza 1st	Korea	-	Loans on real estates	Loans on real estates	General loan
Dongdaemun H 1st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Highest Ocean 1st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Chungju 1st, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Mia 2nd, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Mia third, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Mia fourth, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment
Dujeong SG Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment and general loan
Msquare Mia the first, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
WE BEST Cheongdam 1 <sup>st</sup> , Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
N.H.M.A 1 <sup>st</sup> , Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Yeksam Trinity 1st Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment
SMART CHUNGDAM 1st Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment and general loan
Yongin Sungbok 7 <sup>th</sup>	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
BK AGE Inc.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
TH 1st Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
H SOCIETY M	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
WONJU SG	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
MDMA 1ST Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
My Best 1st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Msquare Shihung 1st Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Chams Fild Oh Kid Co., Ltd.	Korea	-	Special purpose company	Securitization of backed asset	ABS holding, a shareholder
M square Sujeong	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
DSC 1st Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
SLT HANGANG Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Gwacheon 4th.Co., Ltd	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
SMK 6th Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
MSD 1st YUDONGHWA Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment

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

December 31, 2017					
Investee	Country	Ownership (%)	Company	Main Business	Type of control
MSD 2nd Yudonghwa Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M CHEONGDAM 1 <sup>st</sup> , Co., Ltd.	Korea	-	Special purpose Company	Loans on real estates	Mortgage loan Commitment
SLT Songdo M1 Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
HAPPY TREE 1 <sup>st</sup> , Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Cloud Pearl Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
WE BEST Dasan 1 <sup>st</sup> , Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
GRACE YEONG 1 <sup>st</sup> , Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
MS Securitization Specialty Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
MS UNITY 3 <sup>rd</sup> , Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Hopyung-Alfheim 1 <sup>st</sup> , Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Hopyung-Alfheim 4th, Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M SQUARE HYUNGOK Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
MALEEHLSEU 1st Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M-SONGDO 1st Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
SLT Daehyun Co., Ltd.	Korea	-	Special purpose Company	Securitization of backed asset	Mortgage loan Commitment
Zephyrus Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Middle East 1 <sup>st</sup> , Inc.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
STL DASAN Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
IFD the 2nd Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
SLT Myeongdong Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
THE NATURE 1st Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M MUKHYEON 1st INC.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
AJ HOLDINGS Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
NICE DONGTAN 1st Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
CFH Co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan commitment
M SQUARE GASAN Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
SH 1 <sup>st</sup> , Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan commitment and general loan
M Square Woodong 1st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M Square Base 1st	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
SMART MISA Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M SQUARE HIGS 1 <sup>st</sup> , Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
GASAN D PROJECT Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
M SQUARE ANYANG Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment

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

December 31, 2017					
Investee	Country	Ownership (%)	Company	Main Business	Type of control
SL Tiered Advisors Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
Best Queens 1 <sup>st</sup> , Co., Ltd.	Korea	-	Special purpose Company	Securitization of loans on real estates	Mortgage loan Commitment
MSD bay 1 <sup>st</sup> , co., Ltd.	Korea	-	Special purpose company	Securitization of loans on real estates	Mortgage loan Commitment

**2.1.1 The entities included in or excluded from the scope of consolidation for the year ended December 31, 2017 are as follows:**

	Subsidiaries	Reason for consolidation
Included in the consolidation	Lime Investment Trust 1st	(*1)
	Olion IPO Multi Strategy Investment Trust 2nd	(*1)
	Olion IPO Multi Strategy Investment Trust 2nd C-I	(*1)
	Yurie Separate Taxation High-Yield PE No.1	(*1)
	Areumdeuri Investment Private Trust 1st	(*1)
	Hastings Investment Private Trust 1st	(*1)
	Pureun Partners Fund	(*1)
	Csquared Merry Private Investment Trust 1st	(*1)
	Bros IPO Investment Private Trust 1st	(*1)
	Human Investment Trust	(*1)
	Aion Private Investment Trust 1st	(*1)
	Bluetech Multi Fund Specialty Investment Trust 1st	(*1)
	BNK High Yield Investment 1 <sup>st</sup>	(*1)
	Assetone Private Investment Trust 1st	(*1)
	Milestone Private Investment Trust 1st	(*1)
	Capstone EU Investment Private Trust 1st	(*1)
	CSBER01 HOLDCo	(*1)
	CSBER01 PROPCo A	(*1)
	CSBER01 PROPCo B	(*1)
	Meritz Capital Co., Ltd.	(*2)
	Meritz Auto Second Securitization Specialty Company	(*3)
	Meritz Auto Third Securitization Specialty Co., Ltd.	(*3)
	Meritz Auto Fourth Securitization Specialty Co., Ltd.	(*3)
	Meritz Auto Fifth Securitization Specialty Co., Ltd.	(*3)
	Meritz Auto Sixth Securitization Specialty Co., Ltd.	(*3)
	M Square Pungsan Co., Ltd.	(*4)
	DSC 1st Co., Ltd.	(*4)
	MPF PROJECT 1ST CO., LTD.	(*4)
	M ALPHA 1ST CO., LTD.	(*4)
	PANGYOEMALPARIUM INC.	(*4)
	SLT HANGANG Co., Ltd.	(*4)
	M-Square Gwacheon 4th.Co., Ltd	(*4)
	HY DREAM 1ST CO., LTD.	(*4)
	SMK 6 <sup>TH</sup> , CO., LTD.	(*4)
MSD 1st YUDONGHWA Co., Ltd.	(*4)	
MSD 2nd Yudonghwa Co., Ltd.	(*4)	
M Square Banseok 1st Co., Ltd.	(*4)	
M CHEONGDAM 1st Co., Ltd.	(*4)	
SLT Songdo M1 Co., Ltd.	(*4)	



**Meritz Securities Co., Ltd. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2017 and 2016**

**2.1.1 The entities included in or excluded from the scope of consolidation for the year ended December 31, 2017 are as follows: (cont'd)**

	Subsidiaries	Reason for consolidation
	HAPPY TREE 1 <sup>st</sup> , Co., Ltd.	(*4)
	Cloud Pearl Co., Ltd.	(*4)
	WE BEST Dasan 1 <sup>st</sup> , Co., Ltd.	(*4)
	GRACE YEONG 1 <sup>st</sup> , Co., Ltd.	(*4)
	MS Securitization Specialty Co., Ltd.	(*4)
	SMART MISA Co., Ltd.	(*4)
	SLT WIRYE CO., LTD.	(*4)
	MS UNITY 3RD CO., LTD.	(*4)
	Hopyung-Alfheim 1 <sup>st</sup> , Co., Ltd.	(*4)
	Hopyung-Alfheim 4 <sup>TH</sup> , CO., LTD.	(*4)
	SMART GREEN 2ND CO., LTD.	(*4)
	M SQUARE HYUNGOK Co., Ltd.	(*4)
	EMSQUARE HIGS 1st Co., Ltd.	(*4)
	GASAN D PROJECT Co., Ltd.	(*4)
	M SQUARE SONGDO TOWN 1ST CO., LTD.	(*4)
	MALEEHILSEU 1ST CO., LTD.	(*4)
	M-SONGDO 1st Co., Ltd.	(*4)
	SLT Daehyun Co., Ltd.	(*4)
	Zephyrus Co., Ltd.	(*4)
	D OCEAN 1ST CO., LTD.	(*4)
	M Square Middle East 1st Inc.	(*4)
	M-SQUARE ANYANG CO., LTD.	(*4)
	NEW STAR GOLD 2ND CO., LTD.	(*4)
	STL DASAN Co., Ltd.	(*4)
	SL Tiered Advisors Co., Ltd.	(*4)
	IFD the 2nd Co., Ltd.	(*4)
	SLT Myeongdong Co., Ltd.	(*4)
	THE NATURE 1st Co., Ltd.	(*4)
	M MUKHYEON 1st INC.	(*4)
	Best Queens 1 <sup>st</sup> , Co., Ltd.	(*4)
	AJ HOLDINGS Co., Ltd.	(*4)
	NICE DONGTAN 1st Co., Ltd.	(*4)
	MSD BAY 1ST, CO., LTD.	(*4)
	CFH Co., Ltd.	(*4)
	M SQUARE GASAN Co., Ltd.	(*4)
	SH 1 <sup>ST</sup> , CO., LTD.	(*4)
Excluded from the consolidation	M Square Gyeyang 1st	(*5)
	M Square Gyeyang 2nd	(*5)
	M Square Sungsu 1st	(*5)
	MJD 1st	(*5)
	M Square Osan 1st	(*5)
	M Square Sangbong 2nd	(*5)
	M Square Dadam	(*5)
	M Square Yangsan 1st	(*5)
	Yongin Sungbok 1st	(*5)
	Aberlour 1st	(*5)
	Smart Lake 1st	(*5)
	MDS 1st	(*5)
	UPS 1st	(*5)
	M Square Sagik 1st	(*5)
	Real benefit	(*5)
	Yongin Sungbok 2nd	(*5)
	Smartup 1st	(*5)
	Smartup 2nd	(*5)
	Smartup 3rd	(*5)

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Notes to the consolidated financial statements**  
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**2.1.1 The entities included in or excluded from the scope of consolidation for the year ended December 31, 2017 are as follows: (cont'd)**

Subsidiaries	Reason for consolidation
Yongin Seongbok 4th Co., Ltd.	(*5)
Genius 1st	(*5)
M Square Pyeongchon 1st	(*5)
M Square Dongcheon 1st	(*5)
Sungbok 1st	(*5)
M Square Jochon1st	(*5)
M Square Gunsan 1st	(*5)
Nice Penta 1st	(*5)
AM1st	(*5)
Smart Dongcheon 1st	(*5)
Smart Sanghyun 1st	(*5)
H Society 3rd Inc.	(*5)
HY DREAM 1ST CO., LTD.	(*5)
Smart-S 6th Securitization	(*5)
Smart-S 8th Securitization	(*5)
Genius 2nd Co., Ltd.	(*5)
M Square Shihung 1st	(*5)
SMK 1st	(*5)
SMK 2nd	(*5)
Smart R&D 1st	(*5)
CD Two 1st	(*5)
B Lake First Co., Ltd.	(*5)
Apple SG Co., Ltd.	(*5)
AM3 Co., Ltd.	(*5)
Haeundae SG Co., Ltd.	(*5)
Doojung H.S 1 Co., Ltd.	(*5)
M SQUARE SONGJEONG	(*5)
SLT MISA	(*5)
SLT 1st	(*5)
SMART GREEN 2ND CO., LTD.	(*5)
M Square Pungsan Co., Ltd.	(*5)
Daegu SG	(*5)
DM 1st	(*5)
Smart Penta 1st	(*5)
MJ Sangmi First Co., Ltd.	(*5)
Yongjuksg Co., Ltd.	(*5)
SL The Ocean 1st Co., Ltd.	(*5)
MSM 1ST	(*5)
Msquare Myungji Co., Ltd.	(*5)
AM 4th INC.	(*5)
MBR Co., Ltd.	(*5)
M QUEENS 1st Inc.	(*5)
DSM 3rd Co., Ltd.	(*5)
M ALPHA 1ST CO., LTD.	(*5)
PANGYOEMALPARIUM INC.	(*5)
MPF PROJECT 1ST CO., LTD.	(*5)
M Square Banseok 1st Co., Ltd.	(*5)
SLT WIRYE CO., LTD.	(*5)
M Square SONGDO TOWN 1ST CO., LTD.	(*5)
D OCEAN 1ST CO., LTD.	(*5)
NEW STAR GOLD 2ND CO., LTD.	(*5)
Pureun Partners Fund	(*6)
Csquared Merry Private Investment Trust1st	(*6)
Aion Private Investment Trust 1st	(*6)



**Meritz Securities Co., Ltd. and its subsidiaries**  
**Notes to the consolidated financial statements**  
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**2.1.1 The entities included in or excluded from the scope of consolidation for the year ended December 31, 2017 are as follows: (cont'd)**

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

(\*2) These are included in the consolidation scope as the Group acquired 100% of common shares by comprehensive stock exchanges.

(\*3) These are included in the consolidation scope for Meritz Capital Co., Ltd. which acquired 100% of common shares by comprehensive stock exchanges.

(\*4) These are structured entities with the objective of investing in loans related to real estates and are included in the consolidation scope, because the Group has existing rights to direct the relevant activities, and is not only exposed to variable returns, but also has the ability to use its power to affect the investees' returns.

(\*5) The Group lost control of these entities due to liquidations, terminations of transactions, and decreases in equity ratios caused by redemptions of loans, the underlying asset.

(\*6) These are excluded from the consolidation scope as a result of loss of controlling power over the entities due to the sale of the securities.

**2.1.2 Meritz Capital Co., Ltd**

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

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

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

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

Subsidiaries	Acquisition date	Ownership (%)
Eugene Separate Taxation High-Yield PE No.2	May 28, 2014	100.00
Eugene Separate Taxation High-Yield PE No.7	March 2, 2015	99.74
Yurie Separate Taxation High-Yield PE No.1	September 12, 2014	99.74
Kiwoom Separate Taxation High-Yield Private Investment Trust No.2	October 24, 2014	99.74
Koreit Separate Taxation High-Yield Private Investment Trust No. 4	October 27, 2014	100.00
Sparx Separate Taxation High-Yield Private Investment Trust No.1	December 2, 2015	99.66

**2.1.4 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 percentage 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

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

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

### **2.1.6 Meritz Securitization Specialty Co., Ltd. and other entities**

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

### **2.1.7 New Commons 1st and other structured entities**

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

### **2.1.8 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 due to the insolvency of bonds and the Group owns 100% shares of the entity.

### **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, 2016 to provide as collateral, and designated the first-party beneficiary as the secured party.

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

These are collective investment securities with the objective of creating revenue by investing in IPO stocks.

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

Subsidiaries	Acquisition date	Ownership (%)
Lime Investment Trust 1 <sup>st</sup>	March 22, 2017	92.50
Olion IPO Multi Strategy Investment Trust 2nd	March 22, 2017	100.00
Olion IPO Multi Strategy Investment Trust 2nd C-I	March 22, 2017	66.67
Areumdeuri Investment Private Trust 1st	April 11, 2017	94.00
Bluetech Multi Fund Specialty Investment Trust 1st	July 17, 2017	91.67
Hastings Investment Private Trust 1st	June 9, 2017	94.00
Bros IPO Investment Private Trust 1st	August 3, 2016	100.00
Human Investment Trust	August 18, 2016	100.00
Assetone Private Investment Trust 1st	September 11, 2017	100.00
Milestone Private Investment Trust 1st	November 9, 2017	100.00
BNK High Yield Investment 1st	October 21, 2016	99.66

### **2.1.11 Capstone EU Investment Private Trust 1st**

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

**Meritz Securities Co., Ltd. and its subsidiaries**  
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**2.2 The summary of financial information in its consolidated subsidiaries as at December 31, 2017 and 2016 are as follows (Korean won in thousands):**

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

**Meritz Securities Co., Ltd. and its subsidiaries**  
**Notes to the consolidated financial statements**  
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**2.2 The summary of financial information in its consolidated subsidiaries as at December 31, 2017 and 2016 are as follows (Korean won in thousands): (cont'd)**

Investee	December 31, 2016			
	Assets	Liabilities	Operating income	Net income (loss)
China Asia Investment & Consulting Ltd.	₩ -	₩ -	₩ 48,564	₩ 27,907
G New Jump Short-Term Bond Investment Trust No.1	457,852	5	13,567	13,478
RREEF SPEZIAL INVEST GmbH trust of securities contract	1,939,647	-	59,443	32,661
Eugene Separate Taxation High-Yield PEF No.2	11,566,829	4,496	953,563	763,148
Eugene Separate Taxation High-Yield PEF No.7	54,212,625	77,574	3,265,809	2,220,999
Eugene Separate Taxation High-Yield PEF No.1	-	-	2,235,826	1,398,891
Kiwoom Separate Taxation High-Yield Private Investment Trust No. 2	66,470,986	50,580	3,405,359	2,192,326
Koreit Separate Taxation High-Yield Private Investment Trust No. 4	43,238,958	30,906	2,521,199	1,774,517
Sparx Separate Taxation High-Yield Private Investment Trust No.1	26,385,994	8,849	1,636,766	973,740
Capstone Private MBS Real Estate Investment Trust No. 2	3,209,198	207,245	440,045	280,408
Capstone Private MBS Real Estate Investment Trust No. 3	5,342,638	235,197	727,878	538,724
Smart-S 6th Securitization Specialty Co., Ltd.	258,683	5,166,388	34	(41,300)
Smart-S 8th Securitization Specialty Co., Ltd.	10,988	7,716,474	100,135	(72,176)
Smart-S 10th Securitization Specialty Co., Ltd.	1,160,987	2,874,334	624,331	245,574
Meritz Securitization Specialty Co., Ltd. (*)	827,468	-	-	-
M Square Seongsoo 1st and other structured entities	2,294,671,288	2,309,578,516	110,167,269	(6,180,121)

(\*) The financial information of Meritz Securitization Specialty Co., Ltd. is the amounts of its financial statements before the withdrawal of the entity's sale of finance lease assets.

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**3. Unconsolidated structured entities**

**3.1 Details of the nature of the Group's interests in unconsolidated structured entities as at December 31, 2017 are as follows:**

	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 at December 31, 2017 are as follows (Korean won in thousands):**

	Special purpose company	Real estate finance	Investment fund and trust
Total assets of unconsolidated structured entities	₩ 536,009,264	₩ 2,485,506,541	₩ 1,352,677,958
Assets:			
Loans receivable	-	105,469,930	44,735,878
Securities	21,924,058	-	227,087,230
	₩ 21,924,058	₩ 105,469,930	₩ 271,823,108
Liabilities:			
Others	-	921,924	-
	₩ -	₩ 921,924	₩ -
Maximum exposure to loss:			
Holding assets	21,924,058	105,469,930	271,823,108
ABCP purchase commitment	270,000,000	130,000,000	-
Conditional securities commitment	-	216,800,000	123,847,000
Unexecuted credit line commitment	3,600,000	75,995,499	7,000,000
Mortgage loan commitment	-	221,779,000	-
	₩ 295,524,058	₩ 750,044,429	₩ 402,670,108

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

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

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

Significant accounting policies used to prepare the consolidated financial statements are as follows. These policies are equally applied to the consolidated financial statements for the years ended December 31, 2017 and 2016 except for standards which are effective for the annual periods beginning on or after January 1, 2017.

##### **KIFRS 1007 Cash Flow Statement (amendments)**

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, and are applied prospectively from fiscal year beginning on or after January 1, 2017.

##### **KIFRS 1012 Income Taxes (amendments)**

Major details of amendments are as follows:

In the case where the book value of fixed rate financial instruments measured on fair value is reduced, but the value of tax bases of assets and liabilities remain unchanged at acquisition cost, a temporary difference will occur irrespective of the expected method of collection, such as sale or use. The future taxable income can be estimated from a value that exceeds the book value of the asset to consider the feasibility of the temporary difference to be deducted. When considering whether there is sufficient future taxable income, it is necessary to compare the future taxable income before considering the deduction effects from extinction of the temporary difference to be deducted and the temporary difference to be deducted. These are applied prospectively from fiscal year beginning on or after January 1, 2017.

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

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

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

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

KIFRS 1109, enacted on September 25, 2015, is effective for annual periods beginning on or after January 1, 2018, with early application permitted. KIFRS 1109 will replace KIFRS 1039 *Financial Instruments: Recognition and Measurement*. The Group plans to apply KIFRS 1109 for annual periods beginning on or after January 1, 2018.

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

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



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

##### Classification and measurement of financial assets

KIFRS 1109 requires financial instruments to be classified as financial instruments subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL), on the basis of the holder's business model and instrument's contractual cash flow characteristics as shown below. Hybrid contracts with hosts that are assets, are classified in their entirety instead of bifurcating the embedded derivatives.

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

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

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

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

##### Classification and measurement of financial liabilities

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

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

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

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

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

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

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

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

**Impairment: financial assets and contract assets (cont'd)**

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

**Hedge accounting**

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

The Group analyzed the impact of these amendments to the consolidated financial status as at December 31, 2017 and the results are as follows (Korean won in hundred millions):

Book value according to K-IFRS 1039		Changes		Book value according to K-IFRS 1109	
Classification	Amount	Reclassification (*1)	Remeasurement (*2)	Amount	Classification
<b>Assets</b>					
Cash and due from banks	₩ 14,035	₩ -	₩ -	₩ 14,035	Cash and due from banks
Financial assets at fair value through profit or loss	99,199	2,988	-	102,187	financial assets measured at FVTPL
Available-for-sale financial assets	12,517	(2,326)	-	10,191	financial assets measured at FVOCI
Loans and receivables	96,362	(663)	(27)	95,672	Loans and receivables
Subsidiaries and associates	2,097	-	-	2,097	Subsidiaries and associates
Deferred income tax assets	830	-	18	848	Deferred income tax assets
Others	9,466	-	6	9,472	Others
	<u>₩ 234,506</u>	<u>₩ (1)</u>	<u>₩ (2)</u>	<u>₩ 234,503</u>	
<b>Liabilities</b>					
Deposits	32,319	-	-	32,319	Deposits
Financial liabilities at fair value through profit or loss	23,003	-	(6)	22,997	Financial liabilities measured at FVTPL
Borrowings	136,765	-	-	136,765	Borrowings
Provisions	21	-	61	82	Provisions
Others	9,272	-	-	9,272	Others
	<u>₩ 201,380</u>	<u>₩ -</u>	<u>₩ 55</u>	<u>₩ 201,435</u>	
<b>Capital</b>					
Capital stock etc.	21,228	-	-	21,228	Capital stock etc.
Accumulated other comprehensive income	802	(50)	58	810	Accumulated other comprehensive income
Retained earnings	10,098	49	(116)	10,031	Retained earnings
Non-controlling interests	998	-	-	998	Non-controlling interests
	<u>₩ 33,126</u>	<u>₩ (1)</u>	<u>₩ (58)</u>	<u>₩ 33,067</u>	

(\*1) It is analyzed that ₩232,600 million of beneficiary securities and hybrid financial instruments of which the contractual cash flow is not comprised only of principal and interest from AFS financial instruments and ₩66,300 million of notes discounted and loans intended for sale corresponding to other business models from loans and receivables will be reclassified to financial assets measured at FVTPL.

(\*2) In accordance with the expected credit loss model, there will be an increase of ₩2,700 million in provisions for loans and receivables, ₩6,100 million in provisions for loan commitment, and the of recognition of credit loss of ₩5,800 million in debt instruments measured at FVTPL.



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

##### **KIFRS 1115 Revenue from Contracts with Customers**

KIFRS 1115 establishes a five-step model to account for revenue arising from contracts with customers. Under KIFRS 1115, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under KIFRS. 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 significant impact on the Group's financial statements.

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

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

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

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

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

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

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

## **4.2 Principles of consolidation**

### **4.2.1 Subsidiaries**

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

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

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

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

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

### **4.2.3 Investments in associates**

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

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

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

## **4.3 Operating segment reporting**

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

#### **4.4 Foreign exchange**

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

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

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

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

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

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

As 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 profit or loss and other comprehensive income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity.

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

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

#### **4.6 Financial assets**

Financial assets within the scope of KIFRS 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.

#### **4.6.3 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 at December 31, 2017 and 2016.

#### **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 profit or loss and other 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 clientele of investors who trade public stocks and other securities and recognizes the brokerage fees on the trading date. Until the settlement date of the trading on consignment, the Group does not offset the receivables and payables to customers and offsets the receivables and payables to the KRX.

#### **4.8 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.

#### **4.9 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 up to maturity. Effective interest rate amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

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

#### **4.10.2 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.

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.

#### **4.15 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:

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

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

#### **4.17 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.

#### **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.

##### **4.18.2 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.

##### **4.20.1 Finance lease**

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



#### **4.20.2 Operating lease**

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

#### **4.21 Retirement benefits**

##### **4.21.1 Defined benefit pension plans**

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

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

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

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

##### **4.21.2 Defined contribution pension plans**

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

#### **4.22 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.

#### **4.22 Income tax expenses and deferred tax assets and liabilities (cont'd)**

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.

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

Financial liabilities within the scope of KIFRS 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. All financial liabilities including an embedded derivative separated from the host contract are reclassified as financial liabilities at fair value through profit or loss except for financial liabilities designated as effective hedging instruments or financial guarantee contracts. After initial recognition, the changes in the fair value of the financial liabilities at fair value through profit or loss and the related interest expenses are recognized as profit or loss. The Group has designated derivative-linked securities sold by the Group as financial liabilities at fair value through profit or loss.

##### **4.23.2 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. Meanwhile, the group has designated derivatives linked securities sold by the group as financial liabilities at fair value through profit or loss.

#### **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.

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.

#### **4.28 Transaction under common control**

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

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

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

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

### **5.1 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).

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.

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**6. Operating segment information**

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

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

The financial information of the operating segments for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

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

	Year ended December 31, 2016					
	Securities business	Merchant banking	Head Office	Others	Consolidated adjustments	Total
Total revenue	₩ 469,172,477	₩ 357,919,935	₩ 4,048,700,560	₩ 127,992,663	₩ (48,553,457)	₩ 4,955,232,178
Total expense	(367,330,458)	(156,595,151)	(4,020,371,556)	(122,716,698)	44,384,543	(4,622,629,320)
Income (loss) before income tax expense	101,842,019	201,324,784	28,329,004	5,275,965	(4,168,914)	332,602,858
Income tax expense (*1)	(24,105,024)	(47,651,635)	(6,705,202)	(8,780)	(285,514)	(78,756,155)
Net income (loss)	₩ 77,736,995	₩ 153,673,149	₩ 21,623,802	₩ 5,267,185	₩ (4,454,428)	₩ 253,846,703
Assets (*2)	12,058,029,120	3,262,033,789	-	2,508,902,991	(561,152,667)	17,267,813,233
Liabilities (*2)	10,565,058,766	2,868,950,438	-	2,325,950,563	(370,456,762)	15,389,503,005

(\*1) The amount is allocated to net income before income tax of each segment for 2017 and 2016.

(\*2) The total assets and liabilities represent the amount as at December 31, 2017 and 2016.

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

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

The geographic operating revenue information and the geographic non-current assets information for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017		Year ended December 31, 2016	
	Domestic	Overseas	Domestic	Overseas
Operating revenue	₩ 5,297,465,661	₩ -	₩ 4,946,573,758	₩ 27,907
Non-current assets (*)	145,828,365	-	156,522,954	-

(\*) Represents the amount as at December 31, 2017 and 2016.

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**7. Cash and due from banks**

Cash and due from banks as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash and cash equivalents:		
Current deposits	₩ 816,935	₩ 1,291,772
Demand deposits	138,207,306	25,801,595
Foreign currency deposit	8,614,500	10,127,261
MMDA	246,700,000	63,900,000
Others	<u>632,010,168</u>	<u>556,066,963</u>
	1,026,348,909	657,187,591
Due from banks in Korean won:		
Reserve for claims of customers Deposits(*)	194,000,000	38,410,380
Margin on securities market	11,000,000	-
Guarantee deposits for securities Borrowed	12,281,321	62,101,200
Guarantee deposits for trading futures and options	49,946,101	37,100,000
Long - term deposits	46,600,000	2,000,000
Restricted deposits etc.	164,500	174,500
Other deposits	<u>63,134,110</u>	<u>19,982,474</u>
	<u>377,126,032</u>	<u>159,768,554</u>
	<u>₩ 1,403,474,941</u>	<u>₩ 816,956,145</u>

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

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

Financial assets at fair value through profit or loss as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Book value (Fair value)	
	December 31, 2017	December 31, 2016
Financial assets held for trading:		
Equity securities	₩ 444,515,177	₩ 237,782,825
Debt securities:		
Government and public bonds	1,784,865,409	3,573,543,493
Special purpose bonds	4,395,631,684	1,769,127,267
Corporate bonds	2,097,561,461	1,273,908,333
Collective investment securities	306,884,466	188,026,959
Commercial papers	121,257,270	269,355,080
Asset backed short-term bonds	-	50,078,198
Foreign currency securities	136,858,628	107,072,958
	₩ 9,287,574,095	₩ 7,468,895,113
Derivative assets held for trading:		
Interest rate derivatives	45,667,924	74,046,282
Foreign currency derivatives	8,185,412	50,225,716
Equity derivatives	35,129,501	29,541,408
Stock price index derivatives	1,324,178	364,124
Credit	418,856	386,719
Others	1,058,188	5,271,113
Credit risk adjustments	(589,186)	(607,797)
Deferred day 1 profit or loss	687,486	(1,854,851)
	₩ 91,882,359	₩ 157,372,714
Financial assets designated at fair value through profit or loss (*1):		
Equity-linked securities	495,968	4,517,369
Reserve for claims of customers' deposits (trust) (*2)	372,231,592	270,866,951
Others	167,700,063	149,693,912
Credit risk adjustments	(707)	(6,987)
Deferred day 1 profit or loss	(2,260)	(44,327)
	₩ 540,424,656	₩ 425,026,918
	₩ 9,919,881,110	₩ 8,051,294,745

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

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



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

Debt securities of financial assets classified as held-for-trading as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017			December 31, 2016		
	Face value	Acquisition cost	Fair value	Face value	Acquisition cost	Fair value
Debt securities:						
Government and public bonds	KRW 2,038,400,335	₩ 1,786,679,417	₩ 1,784,865,409	3,761,036,247	₩ 3,590,256,147	₩ 3,573,543,493
Special purpose bonds	KRW 4,401,016,840	4,404,682,788	4,395,631,684	1,752,526,931	1,775,692,786	1,769,127,267
Corporate bonds	KRW 2,107,471,736	2,099,400,327	2,097,561,461	1,276,987,327	1,277,956,215	1,273,908,333
	8,546,888,911	8,290,762,532	8,278,058,554	6,790,550,505	6,643,905,148	6,616,579,093
Foreign bonds (*)	USD 96,555,000	109,249,076	102,909,992	93,150,000	104,160,587	102,723,226
	JPY 400,000,000	4,030,291	3,786,104	100,000,000	1,122,138	1,042,160
	SEK 230,000,000	29,879,495	29,145,208	-	-	-
Commercial papers	KRW 121,300,000	121,343,982	121,257,270	269,000,000	269,000,000	269,355,080
Asset backed short-term bonds	KRW -	-	-	50,000,000	50,000,000	50,078,198
		₩ 8,555,265,376	₩ 8,535,157,128		₩ 7,068,187,873	₩ 7,039,777,757

(\*) The acquisition cost and fair value of foreign bonds are converted into Korean won.

Derivative embedded securities of financial assets classified as held-for-trading as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017			December 31, 2016		
	Nominal value	Issue value	Fair value	Nominal value	Issue value	Fair value
Equity linked securities	₩ 500,000	₩ 500,000	₩ 495,968	₩ 4,472,000	₩ 4,472,000	₩ 4,517,369

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

Available-for-sale financial assets as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Book value (Fair value)	
	December 31, 2017	December 31, 2016
Equity securities and equity investment (*)	₩ 246,051,374	₩ 233,758,085
Debt securities:		
Government and public bonds	-	341,241,014
Special purpose bonds	149,861,782	448,685,474
Corporate bonds	508,815,942	248,261,232
Collective investment securities	113,173,589	97,987,525
Foreign currency securities	221,307,960	185,583,280
Commercial papers	-	10,731,480
Others	12,455,174	8,314,005
	₩ 1,251,665,821	₩ 1,574,562,095

(\*) 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.



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

Valuation gain (loss) on valuation of available-for-sale financial assets as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017				
	Acquisition cost	Amortized cost	Accumulated impairment loss	Fair value	Gain(loss) on valuation
Equity securities:					
Marketable equity securities	₩ 2,838,292	₩ 2,838,292	₩ (197,853)	₩ 2,687,840	₩ 47,401
Non-marketable equity securities	146,082,894	146,082,894	(5,094,597)	243,363,534	102,375,237
	148,921,186	148,921,186	(5,292,450)	246,051,374	102,422,638
Debt securities:					
Special purpose bonds	149,938,831	149,831,825	-	149,861,782	29,957
Corporate bonds	506,611,812	509,173,782	-	508,815,942	(357,840)
	656,550,643	659,005,607	-	658,677,724	(327,883)
Collective investment securities	117,786,580	117,786,580	(11,912,891)	113,173,589	7,299,900
Commercial paper	221,227,863	221,227,863	-	221,307,960	80,097
Other securities	12,872,673	12,872,673	(417,499)	12,455,174	-
	₩ 1,157,358,945	₩ 1,159,813,909	₩ (17,622,840)	₩ 1,251,665,821	₩ 109,474,752
	December 31, 2016				
	Acquisition cost	Amortized cost	Accumulated impairment loss	Fair value	Gain(loss) on valuation
Equity securities:					
Marketable equity securities	₩ 6,675,537	₩ 6,675,537	₩ (1,100,206)	₩ 5,843,940	₩ 268,609
Non-marketable equity securities	131,978,067	131,978,067	(3,903,847)	227,914,145	99,839,925
	138,653,604	138,653,604	(5,004,053)	233,758,085	100,108,534
Debt securities:					
Government and public bonds	340,411,936	340,357,251	-	341,241,014	883,763
Special purpose bonds	448,130,280	448,042,918	-	448,685,474	642,556
Corporate bonds	236,378,643	241,763,244	-	248,261,232	6,497,988
	1,024,920,859	1,030,163,413	-	1,038,187,720	8,024,307
Collective investment securities	111,306,758	111,306,758	(7,985,215)	97,987,525	(5,334,018)
Commercial paper	185,137,988	185,370,563	-	185,583,280	212,717
Foreign currency securities	10,444,600	10,444,600	(94,960)	10,731,480	381,840
Other securities	8,314,005	8,314,005	-	8,314,005	-
	₩ 1,478,777,814	₩ 1,484,252,943	₩ (13,084,228)	₩ 1,574,562,095	₩ 103,393,380

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**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, 2017 and 2016 are as follows (Korean won in thousands):

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

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

	Year ended December 31, 2016			
	Beginning balance	Reclassification	Gain (loss) on valuation	Ending balance
Equity securities:				
Marketable equity securities	₩ (4,531,388)	₩ 4,736,807	₩ 63,190	₩ 268,609
Non-marketable equity securities	88,987,588	152,698	10,699,639	99,839,925
	<u>84,456,200</u>	<u>4,889,505</u>	<u>10,762,829</u>	<u>100,108,534</u>
Debt securities				
Government and public bonds	3,527,489	(2,995,783)	352,057	883,763
Special purpose bonds	11,393	(381,207)	1,012,370	642,556
Corporate bonds	1,278,520	(90,857)	5,310,325	6,497,988
	<u>4,817,402</u>	<u>(3,467,847)</u>	<u>6,674,752</u>	<u>8,024,307</u>
Collective investment securities	2,326,431	(1,334,285)	(6,326,164)	(5,334,018)
Commercial paper	15,331	(14,696)	212,082	212,717
Foreign currency securities	-	-	381,840	381,840
	<u>91,615,364</u>	<u>72,677</u>	<u>11,705,339</u>	<u>103,393,380</u>
Income tax effect	(22,096,408)	(17,515)	(2,789,724)	(24,903,647)
	<u>₩ 69,518,956</u>	<u>₩ 55,162</u>	<u>₩ 8,915,615</u>	<u>₩ 78,489,733</u>

Residual maturity profiles of debt securities in available-for-sale financial assets as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

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

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

	December 31, 2016			
	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	₩ -	₩ 330,586,942	₩ 10,654,072	₩ 341,241,014
Special purpose bonds	150,129,064	298,556,410	-	448,685,474
Corporate bonds	86,536,552	161,724,680	-	248,261,232
	236,665,616	790,868,032	10,654,072	1,038,187,720
Commercial paper	185,354,788	228,492	-	185,583,280
	₩ 422,020,404	₩ 791,096,524	₩ 10,654,072	₩ 1,223,771,000

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

Details of investments in associates and joint ventures as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

Associates	Location	Ownership	Book value	
			December 31, 2017	December 31, 2016
Global one Private IPO Investment Trust #1 (*1)	Korea	50.00%	₩ 6,500,000	₩ 6,500,000
MPLUS Private Real Estate Investment Trust #4(*1)	Korea	83.33%	4,802,174	4,945,084
Pureun Partners Fund (*2,3)	Korea	-	-	3,246,789
Csquared Merry Private Investment Trust1st (*2,3)	Korea	-	-	5,626,633
Bros IPO Investment Private Trust 1st (*2,3)	Korea	-	-	3,225,157
Human Investment Trust(*2,3)	Korea	-	-	3,380,400
Aion Private Investment Trust 1st (*2,3)	Korea	-	-	3,272,157
Korea Asset Classic Private Investment Trust 1st (*1)	Korea	7.50%	340,562	-
Mountain Pureun Private Investment Trust (*1)	Korea	7.50%	304,924	-
Meritz Korea Private Investment Trust 1st (*1)	Korea	0.17%	112,046	-
Meritz Korea Private Investment Trust 2nd (*1)	Korea	0.29%	108,826	-
Meritz Korea Private Investment Trust 3rd (*1)	Korea	0.40%	113,927	-
Kiwoom Milestone Europe Professional Private Real Estate InvestmentTrust3 (*3)	Korea	-	-	23,514,987
Kiwoom Milestone Europe Professional Private Real Estate InvestmentTrust4 (*1)	Korea	3.22%	43,001,581	-
Bestars Samo Property No.8 Investment Inc. (*1)	Korea	37.50%	31,236,723	31,188,362
Platform Partners active mezzanine private equity investment trust No.2 (*1)	Korea	8.58%	1,535,260	1,086,286
Airplane fund 5 (*1)	Korea	40.35%	35,715,127	74,926,701
Airplane fund 6 (*1)	Korea	30.03%	9,733,012	40,154,514
Hana Special Situation Professional Private Real Estate Investment Trust 30th (*1)	Korea	9.09%	3,001,402	-
Meritz Professional Private Real Estate Investment Trust 8th (*1)	Korea	0.64%	300,249	-
Capstone Professional Private Real Estate Investment Trust 8th the first class(*1)	Korea	25.00%	183,370	-
Meritz Professional Private Real Estate Investment Trust 7th (*1)	Korea	0.63%	500,182	-
High Yield Plus Investment Trust 3rd (*1)	Korea	3.23%	102,831	399,653
High Yield Plus Investment Trust 4th (*1)	Korea	1.23%	102,823	600,515

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

Associates	Location	Ownership	Book value	
			December 31, 2017	December 31, 2016
East Spring High Yield 2nd (*1)	Korea	0.91%	₩ 101,253	₩ 4,684,371
Acuon Capital Co., Ltd. (*4)	Korea	15.39%	66,678,209	-
Asiageuroseuje1hosamo Investment Limited Partnership	Korea	45.45%	5,000,000	-
Yuamkopain wood Enterprise Financial Anjeongsomo Investment Limited PA	Korea	33.33%	260,285	-
Saengbo Wootoo Shinyoung Housing CR-Reit Co., Ltd.	Korea	-	-	25,000,000
			<u>₩ 209,734,766</u>	<u>₩ 231,751,609</u>

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

(\*2) As Meritz Capital Co., Ltd. was included in the Group's consolidation, the percentage of shares held by the Group and Meritz Capital Co., Ltd. became 100 % in 2017. Therefore, it has been reclassified from a joint venture into a subsidiary.

(\*3) All shares have been sold in 2017.

(\*4) The Group holds redeemable convertible preferred stock issued by Acuon Capital Co., Ltd., and as the director designated by the Group is a member of the Board of Directors of the investee, it was reclassified from AFS financial asset to investments in associates.

Changes in investments in associates and joint venture for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

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

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

Year ended December 31, 2016								
Beginning balance	Acquisition	Disposal	Gain or loss on equity method	Receipt of dividends	Impairment	Capital changes in equity method	Other (*)	Ending balance
₩ 25,186,159	₩ 615,771,561	₩ (409,676,525)	₩ 2,453,020	₩ (2,515,298)	₩ 34,661	₩ 718,852	₩ (220,821)	₩ 231,751,609

(\* ) The book value eliminated as a result of the sale of shares of Cabiroth Investment Consulting (Shanghai) Co., Ltd. in 2016 is included.

Condensed financial statements as at December 31, 2017 and 2016 and for the years then ended are as follows (Korean won in thousands):

Associates	December 31, 2017			
	Assets	Liabilities	Revenue	Net profit(loss)
Globalone Private IPO Investment Trust #1	₩ 13,713,526	₩ 713,526	₩ 967,866	₩ 679,659
MPLUS Private Real Estate Investment Trust #4	4,543,211	2,382	671,188	516,133
Korea Asset Classic Private Investment Trust 1st (*1)	5,846,726	84,116	255,532	(171,492)
Mountain Pureun Private Investment Trust	4,067,929	2,275	113,672	67,782
Meritz Korea Private Investment Trust 1st	64,281,431	43,115	5,589,389	4,138,317
Meritz Korea Private Investment Trust 2nd	61,273,830	17,087	3,524,753	3,156,694
Meritz Korea Private Investment Trust 3rd	17,321,497	56,944	3,015,068	2,737,031

**Meritz Securities Co., Ltd. and its subsidiaries**  
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**10. Investments in associates and joint ventures (cont'd)**

December 31, 2017					
Associates	Assets	Liabilities	Revenue	Net profit(loss)	
Kiwoom Milestone Europe Professional Private Real Estate Investment Trust3	₩ 126,261,153	₩ 50,611	₩ 2,292,486	₩ (2,789,458)	
Bestars Samo Property No.8 Investment Inc.	177,118,175	93,820,247	8,993,299	6,458,350	
Platform Partners active mezzanine private equity investment trust No.2	18,811,006	1,102,097	5,781,308	5,169,059	
Airplane fund 5	180,848,257	5,337,789	16,378,275	10,678,551	
Airplane fund 6	113,216,334	3,456,992	15,711,792	12,107,886	
Hana Special Situation Professional Private Real Estate Investment Trust 30th	33,484,526	469,105	953,433	919,878	
Meritz Professional Private Real Estate Investment Trust 8th	46,753,450	14,649	1,608,086	38,801	
Capstone Professional Private Real Estate Investment Trust 8th the first class	11,276,451	10,542,214	1,496	(41,576)	
Meritz Professional Private Real Estate Investment Trust 7th	80,324,963	395,833	2,490,287	840,749	
High Yield Plus Investment Trust 3 <sup>rd</sup>	3,189,236	1,485	171,225	102,651	
High Yield Plus Investment Trust 4 <sup>th</sup>	8,330,732	2,083	421,409	244,573	
East Spring High Yield 2nd	23,648,738	18,137	2,218,058	1,188,523	
Acuon Capital Co., Ltd. (*)	4,656,500,461	4,102,449,103	315,977,320	60,894,248	
Asiageuroseuje1hosamo Investment Limited Partnership	10,905,959	-	52	(94,041)	
Yuamkopain wood Enterprise Financial Anjeongsomo Investment Limited PA	1,200,000	419,146	-	(419,146)	
	₩ 5,662,917,591	₩ 4,218,998,936	₩ 387,135,994	₩ 106,423,172	

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

December 31, 2016					
Associates	Assets	Liabilities	Revenue	Net Profit(loss)	
Saengbo Wootoo Shinyoung Housing CR-Reit Co., Ltd. II	₩ 322,889,691	₩ 191,101,849	₩ 54,276,931	₩ (13,514,120)	
Globalone Private IPO Investment Trust #1	13,537,963	537,963	1,456,932	850,683	
MPLUS Private Real Estate Investment Trust #4	6,022,861	88,760	490,201	144,112	
Pureun Partners Fund	4,064,465	1,998	818,799	640,559	
Csquared Merry Private Investment Trust 1st	7,049,218	4,806	913,290	727,992	
Bros IPO Investment Private Trust 1st	4,038,972	7,567	120,577	(37,372)	
Human Investment Trust	4,229,228	3,727	319,801	238,027	
Aion Private Investment Trust 1st	4,090,972	775	181,227	116,643	
Kiwoom Milestone Europe Professional Private Real Estate Investment Trust3	110,225,143	5,847,421	1,619,751	(4,641,595)	
Bestars Samo Property No.8 Investment Inc.	176,918,168	93,749,203	10,779,464	6,214,667	
Platform Partners active mezzanine private equity investment trust No.2	12,782,641	34	1,008,010	1,007,369	
Airplane fund 5	181,753,967	6,001,712	11,052,467	522,255	
Airplane fund 6	114,127,800	3,729,755	8,297,628	3,145	
High Yield Plus Investment Trust 3rd	29,147,232	13,805	963,629	599,677	
High Yield Plus Investment Trust 4th	69,240,907	17,544	3,343,590	1,450,155	
East Spring High Yield 2nd	59,321,944	44,981	2,449,187	1,637,472	
	₩ 1,119,441,172	₩ 301,151,900	₩ 98,091,484	₩ (4,040,331)	

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**11. Loans and CMA**

Details of loans and CMA as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017		
	Face value	Allowance for possible loan losses	Book value
Loans:			
Call loans	₩ 141,126	₩ -	₩ 141,126
RP purchased	901,500,000	-	901,500,000
Broker's loan	896,111,629	-	896,111,629
Loans to employees	3,067,690	(68,673)	2,999,017
Loans	6,541,586,258	(119,128,023)	6,422,458,235
Notes discounted	21,000,000	(88,314)	20,911,686
Loans purchased	198,133,141	(1,462,814)	196,670,327
Privately-placed corporate bonds	87,428,754	(602,243)	86,826,511
Payment on behalf of another company	3,660,893	(3,660,893)	-
Deferred loan fees	(3,975,499)	-	(3,975,499)
	<u>₩ 8,648,653,992</u>	<u>₩ (125,010,960)</u>	<u>₩ 8,523,643,032</u>
CMA:			
CMA-notes discounted	<u>₩ 5,000,000</u>	<u>₩ (5,542)</u>	<u>₩ 4,994,458</u>
	December 31, 2016		
	Face value	Allowance for possible loan losses	Book value
Loans:			
Call loans	₩ 60	₩ -	₩ 60
RP purchased	745,000,000	-	745,000,000
Broker's loan	605,663,407	-	605,663,407
Loans to employees	2,944,648	(68,673)	2,875,975
Loans	3,843,948,015	(56,417,673)	3,787,530,342
Notes discounted	72,300,000	(276,393)	72,023,607
Loans purchased	170,535,303	(7,513,521)	163,021,782
Privately-placed corporate bonds	115,984,636	(466,826)	115,517,810
Payment on behalf of another company	4,399,789	(4,365,996)	33,793
Deferred loan fees	(14,127,616)	-	(14,127,616)
	<u>₩ 5,546,648,242</u>	<u>₩ (69,109,082)</u>	<u>₩ 5,477,539,160</u>
CMA:			
CMA-notes discounted	<u>₩ 28,100,000</u>	<u>₩ (90,452)</u>	<u>₩ 28,009,548</u>



## 11. Loans and CMA (cont'd)

### Broker's loans

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

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

Residual maturity profiles of debt securities as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017	December 31, 2016
No later than 1 year	₩ 5,146,117,330	₩ 3,464,093,262
After 1 year but no later than 3 years	2,721,758,439	1,467,605,900
After 1 year but no later than 5 years	591,989,287	535,390,270
After 5 years	192,764,435	93,686,426
	<u>₩ 8,652,629,491</u>	<u>₩ 5,560,775,858</u>

Changes in allowance for possible loan losses for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017	December 31, 2016
Beginning balance	₩ 69,199,534	₩ 134,359,012
Bad debts written off	(12,735,705)	(56,637,682)
Collection of loans written-off in prior periods	823,980	535,105
Utilized	(10,352,010)	(15,579,819)
Increase from a business combination(*)	46,537,275	-
Unwinding effect	(3,417,185)	(4,046,832)
	<u>90,055,889</u>	<u>58,629,784</u>
Provision for allowance	34,960,613	10,569,750
	<u>₩ 125,016,502</u>	<u>₩ 69,199,534</u>

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

Changes in incidental income or incident expense of deferred loans for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

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

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



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**11. Loans and CMA (cont'd)**

	Year ended December 31, 2016			
	Beginning balance	Income or expense incurred	Depreciation	Ending balance
Incidental income	₩ (11,509,134)	₩ (21,405,867)	₩ 18,448,010	₩ (14,466,991)
Incidental expense	964,176	-	(624,801)	339,375
	<u>₩ (10,544,958)</u>	<u>₩ (21,405,867)</u>	<u>₩ 17,823,209</u>	<u>₩ (14,127,616)</u>

Gain (loss) related to loans for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Gain on disposal of loans	₩ 4,856,228	₩ 8,294,777
	4,856,228	8,294,777
Loss on disposal of loans	(871,335)	(782,533)
Provision for doubtful accounts	(34,960,613)	(10,569,750)
	<u>(35,831,948)</u>	<u>(11,352,283)</u>
	<u>₩ (30,975,720)</u>	<u>₩ (3,057,506)</u>

**12. Lease**

Details of lease assets for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017			
	Acquisition cost	Allowance for lease	Accumulated depreciation	Book value
Financial lease	₩ 994,387,160	₩ (10,654,620)	₩ -	₩ 983,732,540
Operating lease	153,828,524	-	(31,889,904)	121,938,620
Advances for acquisition of assets to be leased	1,935,256	-	-	1,935,256
	<u>₩ 1,150,150,940</u>	<u>₩ (10,654,620)</u>	<u>₩ (31,889,904)</u>	<u>₩ 1,107,606,416</u>

	Year ended December 31, 2016		
	Acquisition cost	Allowance for lease	Book value
Financial lease	₩ 264,854,951	₩ (4,848,917)	₩ 260,006,034

Details of total lease investment and the present value of minimum financial lease as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017		December 31, 2016	
	Total lease investment	Minimum financial lease	Total lease investment	Minimum financial lease
No later than 1 year	₩ 142,599,022	₩ 138,734,739	₩ 156,054,935	₩ 150,609,359
After 1 year but no later than 5 years	851,412,066	815,029,448	122,151,516	107,991,354
After 5 years	11,461,335	10,915,409	-	-
	<u>₩ 1,005,472,423</u>	<u>₩ 964,679,596</u>	<u>₩ 278,206,451</u>	<u>₩ 258,600,713</u>

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**12. Lease (cont'd)**

Unearned interests of financial lease as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Total lease investment	₩ 1,005,472,423	₩ 278,206,451
Minimum financial lease	994,387,160	264,854,951
Unearned interest	<u>₩ 11,085,263</u>	<u>₩ 13,351,500</u>

Unsecured residual value of financial lease as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
	₩ 3,574,302	₩ 2,121,148

The estimated future operating lease revenues as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
No later than 1 year	₩ 25,790,268	₩ -
After 1 year but no later than 5 years	45,352,344	-
After 5 years	101,829	-
	<u>₩ 71,244,441</u>	<u>₩ -</u>

Changes in allowance for lease for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	<u>Year ended December 31, 2017</u>	<u>Year ended December 31, 2016</u>
Increase due to business combination		
Beginning balance	₩ 4,848,917	₩ 6,315,833
Bad debts written off	(1,200,858)	(1,211,362)
Recovery of amortized bond	2,667	21,346
Increase due to business combination (*)	4,872,698	-
Unwinding effect	(127,435)	(222,378)
Provision for allowance	8,395,989	4,903,439
(Reversal of allowance for lease)	2,258,631	(54,522)
	<u>₩ 10,654,620</u>	<u>₩ 4,848,917</u>

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

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**12. Lease (cont'd)**

Gain (loss) related to lease for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Interest on financial lease	₩ 34,967,208	₩ 24,611,914
Commissions on operating lease	24,849,017	325,570
Gain on disposal of lease	3,475,283	2,092,524
Reversal of allowance for doubtful accounts	-	54,522
Others	1,045,799	22,742
	<u>64,337,307</u>	<u>27,107,272</u>
Operating lease depreciation	(12,222,266)	(242,586)
Lease commission expense	(160,054)	(194,312)
Loss on disposal of lease	(1,249,325)	(599,249)
Provision for allowance	(2,258,631)	-
Others	(4,899,167)	(16,125)
	<u>(20,789,443)</u>	<u>(1,052,272)</u>
	<u>₩ 43,547,864</u>	<u>₩ 26,055,000</u>

**13. Property and equipment**

Details of property and equipment as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 58,045,667	₩ -	₩ 58,045,667
Buildings	36,847,163	(9,143,680)	27,703,483
Vehicles	2,400,589	(865,201)	1,535,388
Furniture and fixtures	49,434,439	(39,117,327)	10,317,112
Others	591,421	-	591,421
	<u>₩ 147,319,279</u>	<u>₩ (49,126,208)</u>	<u>₩ 98,193,071</u>
	December 31, 2016		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 59,306,738	₩ -	₩ 59,306,738
Buildings	39,081,619	(9,273,590)	29,808,029
Vehicles	122,925	(42,605)	80,320
Furniture and fixtures	60,407,262	(50,548,100)	9,859,162
Others	591,421	-	591,421
	<u>₩ 159,509,965</u>	<u>₩ (59,864,295)</u>	<u>₩ 99,645,670</u>

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**13. Property and equipment (cont'd)**

Changes in property and equipment for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

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

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

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

(\*3) Transfer of land is the transferred amount from investment properties based on the change in rental rates, and the transfer of vehicles are the transferred amount from lease transactions within the consolidation entity.

	Year ended December 31, 2016						Ending balance
	Beginning balance	Addition (*1)	Disposal	Depreciation	Transfer (*2)	Other	
Land	₩ 59,272,919	₩ -	₩ (35,000)	₩ -	₩ 68,819	₩ -	₩ 59,306,738
Buildings	30,689,128	-	(10,849)	(957,708)	87,458	-	29,808,029
Vehicles	244,420	89,658	(206,578)	(47,180)	-	-	80,320
Furniture and fixture	10,501,985	4,118,151	(275,035)	(4,485,939)	-	-	9,859,162
Others	591,421	-	-	-	-	-	591,421
	<u>₩ 101,299,873</u>	<u>₩ 4,207,809</u>	<u>₩ (527,462)</u>	<u>₩ (5,490,827)</u>	<u>₩ 156,277</u>	<u>₩ -</u>	<u>₩ 99,645,670</u>

(\*1) ₩372,701 thousand of tangible assets based on the recognition of provision for restoration cost are included in the acquisition of furniture and fixtures.

(\*2) Transfer of land and buildings are the transferred amount from investment properties based on the change in rental rates.

**14. Investment property**

Details of investment property as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

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

  

	December 31, 2016		
	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 12,489,782	₩ -	₩ 12,489,782
Buildings	14,976,426	(6,302,857)	8,673,569
	<u>₩ 27,466,208</u>	<u>₩ (6,302,857)</u>	<u>₩ 21,163,351</u>

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**14. Investment property (cont'd)**

Changes in the net carrying amount of investment properties for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

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

  

	Year ended December 31, 2016				
	Beginning balance	Disposal	Depreciation	Transfer (*)	Ending Balance
Land	₩ 19,360,454	₩ (6,801,853)	₩ -	₩ (68,819)	₩ 12,489,782
Buildings:					
Acquisition cost	16,995,058	(1,614,198)	-	(404,434)	14,976,426
Accumulated depreciation	(6,303,224)	84,073	(400,682)	316,976	(6,302,857)
	₩ 30,052,288	₩ (8,331,978)	₩ (400,682)	₩ (156,277)	₩ 21,163,351

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

The fair value of the land and buildings provided by an independent property appraisal firm is amounted to ₩7,005,883 thousand and ₩8,279,284 thousand as at December 31, 2017 and 2016, respectively.

The rental income and depreciation arising from the Group's investment properties for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Rental income	₩ 892,933	₩ 1,525,158
Depreciation	(229,376)	(400,682)

₩2,870 million of the right to fixed collateral is established for lease deposit on investment property as at December 31, 2017.

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**15. Intangible assets**

Intangible assets as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

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

  

	December 31, 2016			
	Acquisition cost	Accumulated amortization	Accumulated impairment loss	Book value
Software	₩ 45,216,379	₩ (37,230,508)	₩ -	₩ 7,985,871
Membership	15,851,273	-	(4,179,625)	11,671,648
Others	16,396,015	(339,600)	-	16,056,415
	<u>₩ 77,463,667</u>	<u>₩ (37,570,108)</u>	<u>₩ (4,179,625)</u>	<u>₩ 35,713,934</u>

Changes in carrying amounts of intangible assets for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

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

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

	Year ended December 31, 2016					
	Beginning balance	Addition	Decrease	Depreciation	Others	Ending balance
Software	₩ 12,743,755	₩ 2,181,606	₩ -	₩ (6,939,490)	₩ -	₩ 7,985,871
Membership	11,481,531	2,120,819	(1,930,702)	-	-	11,671,648
Others	16,226,215	-	-	(169,800)	-	16,056,415
	<u>₩ 40,451,501</u>	<u>₩ 4,302,425</u>	<u>₩ (1,930,702)</u>	<u>₩ (7,109,290)</u>	<u>₩ -</u>	<u>₩ 35,713,934</u>

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**16. Other assets**

Other assets as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017	December 31, 2016
Receivable from proprietary trading	₩ 195,053,115	₩ 240,257,668
Receivable from trading on consignment	247,752,477	87,922,838
Other receivable	52,927,243	26,723,951
Accrued income	77,954,575	80,870,284
Guarantee deposits	14,459,863	7,074,919
Unsettled spot exchange	32,166,600	46,659,606
Unsettled difference	742,918	861,411
Allowance for possible losses	(4,820,701)	(3,553,525)
Present value discount	(496,527)	(301,750)
	₩ 615,739,563	₩ 486,515,402
Advanced payment	160,829,724	95,106,092
Prepaid expenses	20,853,211	22,421,431
Others	3,344,038	2,098,633
	₩ 185,026,973	₩ 119,626,156
	₩ 800,766,536	₩ 606,141,558

Changes in allowance for other assets for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance	₩ 3,553,525	₩ 4,696,672
Bad debt written-off	(328,262)	(1,340,697)
Recovery of amortized bond	-	50
Increase due to business combination (*)	559,679	-
Provision for (reversal of) allowance	1,035,759	197,500
	₩ 4,820,701	₩ 3,553,525

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

**17. Deposits**

Deposits as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017	December 31, 2016
Customers' claims on deposits	₩ 620,331,111	₩ 319,674,249
Leasehold deposits provided	229,627,801	104,057,434
CMA deposits	5,309,167	14,878,546
Notes payable	2,385,585,809	2,669,376,108
Others	4,922,849	2,042,775
	₩ 3,245,776,737	₩ 3,110,029,112
Discounted present value	(13,843,381)	(7,210,292)
	₩ 3,231,933,356	₩ 3,102,818,820



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**18. Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Book value (fair value)	
	December 31, 2017	December 31, 2016
Financial liabilities held-for-trading:		
Stock	₩ 282,745,373	₩ 190,198,715
Bonds:		
Government bonds	1,342,858,199	1,135,551,151
Special purpose bonds	150,374,567	542,038,960
Others	14,836,701	828,935
	₩ 1,790,814,840	₩ 1,868,617,761
Derivatives liabilities held-for-trading:		
Interest	34,748,925	57,898,596
Currency	4,696,090	30,734,971
Stock	16,660,122	8,878,608
Stock index	2,146,083	358,335
Others	3,300,695	5,334,373
Credit risk adjustments	(102,909)	(141,305)
Deferred Day1 profit or loss adjustments	891,607	92,922
	₩ 62,340,613	₩ 103,156,500
Financial liabilities designated at fair value through profit or loss(*):		
Equity linked securities sold	64,421,442	38,669,005
Derivative linked securities sold	382,962,355	603,015,306
Others	392,069	13,253,118
Credit risk value adjustments	(648,997)	(817,716)
Deferred day 1 profit or loss adjustments	18,252	309,972
	₩ 447,145,121	₩ 654,429,685
	₩ 2,300,300,574	₩ 2,626,203,946

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

**19. Borrowings**

Borrowings as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Lender	Interest rate (%)	December 31,	
			2017	2016
Borrowings:				
Call money	Kiwoom asset Management and others	1.71	₩ 90,000,000	₩ -
Commercial paper	KTB Investment & Securities and others	1.65~2.79	487,000,000	430,100,000
Commercial Paper (ABCP)		1.58~6.00	1,262,700,000	882,200,000
Repurchase agreements sold	Woori Bank and others	1.15~1.80	6,390,979,183	5,351,618,732
Repurchase agreements sold (Foreign currency)	JP Morgan Securities	1.80	36,811,089	-
Borrowing from KSFC	KSFC	1.55	600,000,000	625,000,000
Others (*)	Meritz Fire & Marine Insurance Co., Ltd. and others	2.79~6.50	77,009,859	294,190,141
			₩ 8,944,500,131	₩ 7,583,108,873

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**19. Borrowing (cont'd)**

	Lender	Interest rate (%)	December 31, 2017	December 31, 2016
Debentures :				
Asset backed short-term bonds	KTB Investment & Securities and others	1.70~5.70	1,121,400,000	1,111,500,000
Debentures		1.49~5.74	3,610,607,066	279,956,420
			₩ 4,732,007,066	₩ 1,391,456,420
			₩ 13,676,507,197	₩ 8,974,565,293

(\*) ₩57,010 million and ₩189,390 million, the amounts that subsidiaries borrowed from Meritz Fire & Marine Insurance Co., Ltd. as at December 31, 2017 and 2016, respectively, are included.

Debentures as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Interest rate (%)	Date of issue	Maturity	December 31, 2017	December 31, 2016
Unwarranted subordinated debentures	6.20	2011-08-18	2017-02-18	₩ -	₩ 10,100,000
Unwarranted subordinated debentures	5.44	2012-06-28	2017-12-28	-	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
Debentures guaranteed by holding company	2.13	2015-03-16	2018-03-16	40,000,000	-
Debentures guaranteed by holding company	2.07	2015-03-19	2018-03-19	50,000,000	-
Debentures guaranteed by holding company	1.92	2015-04-24	2018-04-24	10,000,000	-
Debentures guaranteed by holding company	2.12	2015-04-24	2020-04-24	30,000,000	-
Debentures guaranteed by holding company	2.45	2015-05-27	2020-05-27	40,000,000	-
Debentures guaranteed by holding company	2.47	2015-06-24	2020-06-24	20,000,000	-
Debentures guaranteed by holding company	2.47	2015-06-24	2020-06-24	20,000,000	-
Non guaranteed debentures	2.78	2015-07-29	2018-07-29	80,000,000	-
Non guaranteed debentures	2.80	2015-08-12	2018-08-12	40,000,000	-
Non guaranteed debentures	3.06	2015-10-23	2018-10-23	20,000,000	-
Non guaranteed debentures	3.06	2015-10-26	2018-10-26	60,000,000	-
Debentures guaranteed by holding company	2.13	2016-01-14	2018-01-14	10,000,000	-
Debentures guaranteed by holding company	2.23	2016-01-14	2019-01-14	30,000,000	-
Debentures guaranteed by holding company	2.44	2016-01-14	2021-01-14	20,000,000	-
Non guaranteed debentures	2.89	2016-02-02	2018-02-02	10,000,000	-
Debentures guaranteed by holding company	2.07	2016-02-03	2019-02-01	10,000,000	-
Non guaranteed debentures	2.78	2016-02-18	2018-02-14	10,000,000	-
Non guaranteed debentures	3.06	2016-02-25	2019-02-25	10,000,000	-
Non guaranteed debentures	3.04	2016-02-29	2019-02-28	10,000,000	-
Debentures guaranteed by holding company	1.91	2016-03-30	2019-03-29	20,000,000	-
Non guaranteed debentures (*)	3.01	2016-04-05	2019-04-05	81,575,540	-
Debentures guaranteed by holding company	1.76	2016-05-12	2018-05-11	30,000,000	-
Debentures guaranteed by holding company	1.84	2016-05-25	2018-05-25	20,000,000	-
Debentures guaranteed by holding company	2.10	2016-05-25	2021-05-25	20,000,000	-
Non guaranteed debentures	2.46	2016-07-25	2018-01-25	10,000,000	-
Non guaranteed debentures	2.46	2016-07-29	2018-01-29	60,000,000	-
Non guaranteed debentures	2.44	2016-08-09	2018-02-09	30,000,000	-
Debentures guaranteed by holding company	1.49	2016-08-11	2018-02-09	10,000,000	-
Non guaranteed debentures	2.47	2016-08-26	2018-02-26	10,000,000	-
Non guaranteed debentures	2.91	2016-08-26	2021-08-26	20,000,000	-
Non guaranteed debentures	2.53	2016-09-02	2018-03-02	10,000,000	-
Non guaranteed debentures	2.62	2016-09-27	2018-03-27	20,000,000	-
Debentures guaranteed by holding company	1.74	2016-10-26	2018-01-26	10,000,000	-
Debentures guaranteed by holding company	1.88	2016-11-04	2018-01-10	20,000,000	-
Debentures guaranteed by holding company	1.86	2016-11-11	2018-02-09	30,000,000	-
Debentures guaranteed by holding company	1.87	2016-11-11	2018-05-11	20,000,000	-
Debentures guaranteed by holding company	1.88	2016-11-11	2018-06-11	10,000,000	-
Debentures guaranteed by holding company	1.93	2016-11-11	2018-11-09	10,000,000	-
Non guaranteed debentures	2.95	2016-11-11	2018-11-09	30,000,000	-
Debentures guaranteed by holding company	2.00	2016-12-23	2018-01-23	20,000,000	-
Non guaranteed debentures	2.87	2017-01-12	2018-02-12	10,000,000	-
Non guaranteed debentures	2.88	2017-01-12	2018-03-12	10,000,000	-
Debentures guaranteed by holding company	1.87	2017-01-12	2018-01-12	10,000,000	-
Debentures guaranteed by holding company	1.87	2017-01-12	2018-02-12	20,000,000	-
Debentures guaranteed by holding company	1.88	2017-01-12	2018-04-12	10,000,000	-
Debentures guaranteed by holding company	1.89	2017-01-12	2018-05-11	10,000,000	-

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**19. Borrowings (cont'd)**

	Interest rate (%)	Date of issue	Maturity	December 31, 2017	December 31, 2016
Debentures guaranteed by holding company	2.02	2017-01-12	2019-01-11	₩ 10,000,000	₩ -
Debentures guaranteed by holding company	1.86	2017-01-17	2018-04-17	10,000,000	-
Debentures guaranteed by holding company	1.94	2017-01-17	2018-10-17	10,000,000	-
Non guaranteed debentures	2.86	2017-01-20	2018-04-20	10,000,000	-
Debentures guaranteed by holding company	2.00	2017-01-20	2019-01-18	20,000,000	-
Debentures guaranteed by holding company	1.86	2017-01-23	2018-04-23	50,000,000	-
Non guaranteed debentures	3.09	2017-01-26	2019-01-25	30,000,000	-
Debentures guaranteed by holding company	1.85	2017-02-03	2018-05-03	50,000,000	-
Non guaranteed debentures	2.84	2017-02-03	2018-04-03	10,000,000	-
Debentures guaranteed by holding company	1.85	2017-02-10	2018-08-10	30,000,000	-
Non guaranteed debentures	2.89	2017-02-10	2018-08-10	10,000,000	-
Non guaranteed debentures	3.09	2017-02-10	2019-02-08	50,000,000	-
Non guaranteed debentures	2.82	2017-02-21	2018-08-21	50,000,000	-
Non guaranteed debentures	3.03	2017-02-21	2019-02-21	20,000,000	-
Non guaranteed debentures	2.81	2017-03-03	2018-09-01	10,000,000	-
Non guaranteed debentures	2.73	2017-03-07	2018-04-06	20,000,000	-
Non guaranteed debentures	2.75	2017-03-07	2018-05-04	10,000,000	-
Non guaranteed debentures	2.82	2017-03-07	2018-09-07	10,000,000	-
Non guaranteed debentures	3.06	2017-03-07	2019-03-07	30,000,000	-
Non guaranteed debentures	2.81	2017-03-20	2018-06-20	20,000,000	-
Non guaranteed debentures	2.86	2017-03-20	2018-09-20	10,000,000	-
Non guaranteed debentures	3.09	2017-03-20	2019-03-20	30,000,000	-
Non guaranteed debentures	2.71	2017-04-07	2018-04-06	20,000,000	-
Non guaranteed debentures	2.77	2017-04-07	2018-08-07	10,000,000	-
Non guaranteed debentures	2.79	2017-04-07	2018-09-07	10,000,000	-
Non guaranteed debentures	2.81	2017-04-07	2018-10-05	40,000,000	-
Non guaranteed debentures	3.04	2017-04-07	2019-04-05	60,000,000	-
Non guaranteed debentures	3.38	2017-04-07	2020-04-06	30,000,000	-
Non guaranteed debentures	3.03	2017-05-11	2019-05-10	60,000,000	-
Non guaranteed debentures	2.69	2017-05-22	2018-11-22	50,000,000	-
Non guaranteed debentures	2.96	2017-05-22	2019-05-22	50,000,000	-
Non guaranteed debentures	2.85	2017-06-12	2019-06-12	50,000,000	-
Non guaranteed debentures	2.83	2017-06-21	2019-06-21	50,000,000	-
Non guaranteed debentures	2.78	2017-08-14	2019-08-14	80,000,000	-
Non guaranteed debentures	2.37	2017-09-13	2019-03-13	10,000,000	-
Non guaranteed debentures	2.70	2017-09-13	2019-09-11	80,000,000	-
Non guaranteed debentures	2.74	2017-09-13	2019-10-11	20,000,000	-
Non guaranteed debentures	2.69	2017-09-25	2019-09-25	140,000,000	-
Non guaranteed debentures	2.64	2017-10-17	2019-07-17	20,000,000	-
Non guaranteed debentures	2.81	2017-10-17	2019-10-17	100,000,000	-
Non guaranteed debentures	3.05	2017-10-17	2020-04-17	20,000,000	-
Non guaranteed debentures	3.33	2017-10-17	2020-10-16	20,000,000	-
Non guaranteed debentures	2.76	2017-10-28	2019-04-30	20,000,000	-
Non guaranteed debentures	3.18	2017-11-11	2019-11-13	50,000,000	-
Non guaranteed debentures	2.09	2017-11-21	2019-05-21	10,000,000	-
Non guaranteed debentures	3.19	2017-11-21	2019-11-21	50,000,000	-
Non guaranteed debentures	2.63	2017-12-11	2019-07-11	50,000,000	-
Non guaranteed debentures	2.70	2017-12-11	2019-08-09	40,000,000	-
Non guaranteed debentures	2.96	2017-12-11	2019-12-11	120,000,000	-
Non guaranteed debentures	3.01	2017-12-11	2020-01-10	10,000,000	-
Non guaranteed debentures	3.26	2017-12-11	2020-06-11	30,000,000	-
Asset-backed debentures	2.24	2015-11-13	2018-07-30	10,000,000	-
Asset-backed debentures	2.29	2015-11-13	2018-10-30	8,000,000	-
Asset-backed debentures	2.33	2015-11-13	2019-01-30	8,000,000	-
Asset-backed debentures	2.37	2015-11-13	2019-04-30	7,000,000	-
Asset-backed debentures	2.40	2015-11-13	2019-07-30	6,000,000	-
Asset-backed debentures	2.43	2015-11-13	2019-10-30	6,000,000	-
Asset-backed debentures	1.84	2016-03-30	2018-01-30	5,000,000	-
Asset-backed debentures	1.84	2016-03-30	2018-02-28	5,000,000	-
Asset-backed debentures	1.84	2016-03-30	2018-03-30	5,000,000	-
Asset-backed debentures	1.84	2016-03-30	2018-04-30	5,000,000	-
Asset-backed debentures	1.84	2016-03-30	2018-06-29	10,000,000	-
Asset-backed debentures	1.85	2016-03-30	2018-09-28	10,000,000	-
Asset-backed debentures	1.59	2016-09-09	2018-01-09	10,000,000	-
Asset-backed debentures	1.60	2016-09-09	2018-02-09	10,000,000	-
Asset-backed debentures	1.65	2016-09-09	2018-05-09	10,000,000	-
Asset-backed debentures	1.66	2016-09-09	2018-06-08	10,000,000	-
Asset-backed debentures	1.66	2016-09-09	2018-08-09	10,000,000	-
Asset-backed debentures	1.67	2016-09-09	2018-09-09	10,000,000	-
Asset-backed debentures	1.67	2016-09-09	2018-10-08	10,000,000	-

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**19. Borrowings (cont'd)**

	Interest rate (%)	Date of issue	Maturity	December 31, 2017	December 31, 2016
Asset-backed debentures	1.67	2016-09-09	2018-12-07	₩ 10,000,000	₩ -
Asset-backed debentures	1.68	2016-09-09	2019-02-08	10,000,000	-
Asset-backed debentures	1.69	2016-09-09	2019-04-09	10,000,000	-
Asset-backed debentures	1.70	2016-09-09	2019-06-07	10,000,000	-
Asset-backed debentures	1.85	2017-11-28	2018-01-28	10,000,000	-
Asset-backed debentures	1.86	2017-11-28	2018-02-28	10,000,000	-
Asset-backed debentures	1.91	2017-11-28	2018-03-28	10,000,000	-
Asset-backed debentures	1.96	2017-11-28	2018-04-28	10,000,000	-
Asset-backed debentures	2.01	2017-11-28	2018-05-28	10,000,000	-
Asset-backed debentures	2.06	2017-11-28	2018-06-28	10,000,000	-
Asset-backed debentures	2.09	2017-11-28	2018-07-28	10,000,000	-
Asset-backed debentures	2.14	2017-11-28	2018-08-28	10,000,000	-
Asset-backed debentures	2.18	2017-11-28	2018-09-28	10,000,000	-
Asset-backed debentures	2.23	2017-11-28	2018-10-28	10,000,000	-
Asset-backed debentures	2.28	2017-11-28	2018-11-28	10,000,000	-
Asset-backed debentures	2.31	2017-11-28	2018-12-28	10,000,000	-
Asset-backed debentures	2.33	2017-11-28	2019-01-28	10,000,000	-
Asset-backed debentures	2.35	2017-11-28	2019-02-28	10,000,000	-
Asset-backed debentures	2.39	2017-11-28	2019-03-28	10,000,000	-
Asset-backed debentures	2.41	2017-11-28	2019-04-28	10,000,000	-
Asset-backed debentures	2.43	2017-11-28	2019-05-28	10,000,000	-
Asset-backed debentures	2.46	2017-11-28	2019-06-28	10,000,000	-
Asset-backed debentures	2.48	2017-11-28	2019-07-28	10,000,000	-
Asset-backed debentures	2.51	2017-11-28	2019-08-28	10,000,000	-
Asset-backed debentures	2.52	2017-11-28	2019-09-28	10,000,000	-
Asset-backed debentures	2.54	2017-11-28	2019-10-28	10,000,000	-
Asset-backed debentures	2.56	2017-11-28	2019-11-28	10,000,000	-
Asset-backed debentures	2.57	2017-11-28	2020-01-28	10,000,000	-
Asset-backed debentures	2.60	2017-11-28	2020-04-28	10,000,000	-
Asset-backed debentures	2.60	2017-11-28	2020-05-28	10,000,000	-
Asset-backed debentures	2.65	2017-11-28	2020-07-28	10,000,000	-
Asset-backed debentures	2.70	2017-11-28	2020-09-28	10,000,000	-
Asset-backed debentures	2.75	2017-11-28	2020-12-28	10,000,000	-
Asset-backed debentures	2.76	2017-11-28	2021-02-28	10,000,000	-
Discount on debenture issued				(5,968,474)	(143,580)
				<u>₩ 3,610,607,066</u>	<u>₩ 279,956,420</u>

(\*)The 41<sup>st</sup> unguaranteed bonds are an interest-bearing public offering bond, and have a put-option. The periods for early redemptions are as follows:

	The periods for early redemption		Early redemption date	Maturity repayment rate
	From	To		
1st	2017-03-14	2017-03-22	2017-04-05	100.00%
2nd	2018-03-14	2018-03-22	2018-04-05	100.00%

**20. Provisions**

Provisions as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017	December 31, 2016
Reserve for rehabilitation	₩ 1,744,553	₩ 1,364,582
Provision for possible losses from lawsuits	325,471	8,821,677
	<u>₩ 2,070,024</u>	<u>₩ 10,186,259</u>

**Meritz Securities Co., Ltd. and its subsidiaries**  
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**20. Provisions (cont'd)**

Changes in provision for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

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

  

	Year ended December 31, 2016					
	Beginning balance	Addition (*1)	Provision (Reversal)	Use	Transfer	Ending balance
Reserve for rehabilitation	₩ 1,040,217	₩ 372,701	₩ 10,282	₩ (58,618)	₩ -	₩ 1,364,582
Provision for possible losses from lawsuits	5,825,349	-	3,711,332	(715,004)	-	8,821,677
	<u>₩ 6,865,566</u>	<u>₩ 372,701</u>	<u>₩ 3,721,614</u>	<u>₩ (773,622)</u>	<u>₩ -</u>	<u>₩ 10,186,259</u>

(\*1) This is the amount for tangible assets based on the recognition of provision for restoration cost in 2017 and 2016.

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

**21. Defined benefit liabilities**

Defined benefit liabilities as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017	December 31, 2016
Present value of defined benefit liabilities	₩ 14,567,457	₩ 13,103,654
Fair value of plan assets	(14,567,457)	(10,475,505)
Defined benefit obligation	<u>₩ -</u>	<u>₩ 2,628,149</u>

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

	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance	₩ 13,103,654	₩ 10,660,762
Current service cost	4,426,987	4,347,293
Interest expense	267,368	229,454
Re-measurement:		
Experience adjustments	(136,821)	(81,152)
Actuarial changes arising from changes in demographic assumptions	683	4,092
Actuarial changes arising from changes in financial assumptions	(443,421)	76,285
Payment	(2,650,993)	(2,133,080)
Ending balance	<u>₩ 14,567,457</u>	<u>₩ 13,103,654</u>

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

Changes in plan assets for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance	₩ 10,475,505	₩ 9,154,133
Expected return on plan assets	208,386	194,180
Re-measurement:		
Interest income from plan assets (Excluding the amount included in the interest income above)	(63,313)	(49,504)
Contributions by employer	6,346,185	3,502,939
Payment	(2,079,391)	(2,326,243)
Other	(319,915)	-
Ending balance	<u>₩ 14,567,457</u>	<u>₩ 10,475,505</u>

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

	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance	₩ (663,265)	₩ (626,265)
Re-measurement on defined benefit liabilities	579,559	775
Re-measurement on plan assets	(63,313)	(49,504)
Income tax effect	(124,880)	11,729
Ending balance	<u>₩ (271,899)</u>	<u>₩ (663,265)</u>

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

	Year ended December 31, 2017	Year ended December 31, 2016
Current service cost	₩ 4,426,987	₩ 4,347,293
Interest expense, net	58,982	35,274
Defined benefit of severance payment	<u>₩ 4,485,969</u>	<u>₩ 4,382,567</u>

The principal actuarial assumptions as at December 31, 2017 and 2016 are as follows:

	December 31, 2017	December 31, 2016
Discount rate	2.82%	2.25%
Expected return ratio on plan assets	2.82%	2.25%
Future ratio of salary increase	2.00%	2.00%
Mortality rate	0.002% ~ 0.114%	0.004% ~ 0.067%



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

Sensitivity analysis for actuarial assumptions in defined benefit liabilities as at December 31, 2017 is as follows (Korean won in thousands):

	<u>December 31, 2017</u>	<u>1% Increase</u>	<u>1% Decrease</u>
Fluctuation of future salary	₩ 14,567,457	15,350,574	13,848,634
Fluctuation of discount rate	₩ 14,567,457	13,862,102	15,350,167

The details of plan assets as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Deposits, etc.	₩ 4,204,351	₩ 3,842,081
Equity	9,525	7,266
Bonds	2,824,998	1,749,906
Collective investment securities	1,664,862	132,427
Financial assets in foreign currency	11,390	271,930
Others	5,852,331	4,471,895
	<u>₩ 14,567,457</u>	<u>₩ 10,475,505</u>

**22. Other liabilities**

Details of other liabilities as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Other financial liabilities:		
Account payable for proprietary trading	₩ 33,403,992	₩ 17,457,194
Account payable for trading on consignment	246,502,655	86,986,180
Accounts payables	52,136,893	17,014,540
Accrued expense payables	327,138,475	246,759,356
Accrued dividend	782,698	120,235
Leasehold deposits received	3,685,400	4,071,940
Unsettled spot exchange	32,175,200	46,667,720
Unsettled difference	2,838,866	3,872,015
Redeemable equity for non-controlling shareholders	3,589,664	39,912,458
	<u>₩ 702,253,843</u>	<u>₩ 462,861,638</u>
Other non-financial liabilities:		
Advance receipts	18,764,536	65,222,295
Unearned income	117,953,871	105,561,878
Withholding tax	10,296,087	8,481,018
Others	22,774,885	16,006,933
	<u>₩ 169,789,379</u>	<u>₩ 195,272,124</u>
	<u>₩ 872,043,222</u>	<u>₩ 658,133,762</u>



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**23. Derivative instruments**

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

The notional amount of derivative assets and liabilities outstanding as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

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

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

	December 31, 2016		
	Notional amount	Asset	Liability
Exchange-traded derivatives:			
Interest rates:			
Interest futures	₩ 864,493,279	₩ 184,821	₩ 311,718
Interest option purchased	291,490	529	-
Interest option sold	-	-	-
Currency:			
Currency futures	26,431,212	23,799	16,047
Currency option purchased	-	-	-
Currency option sold	-	-	-
Stock :			
Stock futures	697,220,362	47,330	17,891
Stock option purchased	91,124,495	8,230,229	-
Stock option sold	89,740,662	-	362,581
Commodity:			
Commodity futures	20,269,656	432,288	1,128,684
Commodity option purchased	21,978,361	1,034,826	-
Commodity option sold	740,968,088	-	783,773
	₩ 2,552,517,605	₩ 9,953,822	₩ 2,620,694
Over-the-counter derivatives:			
Interest rates:			
Interest rate swap	100,132,959,000	73,330,260	56,115,575
Interest rate option sold	10,000,000	-	1,371,265
Currency:			
Currency forward	798,406,400	50,124,794	30,677,657
Currency swap	-	-	-
Stock:			
Stock swap	1,418,161	-	38,472
Options purchased	99,563,915	21,167,403	-
Options sold	93,047,611	-	8,928,811
Credit:			
CDS	60,000,000	912,259	-
Others:			
Other swap	497,474,569	1,793,165	3,404,025
Options purchased	4,000,000	91,013	-
Options sold	-	-	-
	₩ 101,696,869,656	₩ 147,418,894	₩ 100,535,805
	₩ 104,249,387,261	₩ 157,372,716	₩ 103,156,499

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

Gain (loss) on valuation of trading derivative financial instruments for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Exchange-traded derivatives:		
Interest rates	₩ 962,363	₩ (769,013)
Currency	507,124	(395,491)
Stock	(989,957)	192,507
Stock index	(13,010,110)	(7,456,394)
Others	1,377,251	3,845,419
	<u>₩ (11,153,329)</u>	<u>₩ (4,582,972)</u>
Over-the-counter derivatives:		
Interest rates	4,839,536	15,159,898
Currency	3,330,231	(2,754,849)
Stock	(12,449,996)	12,330,904
Credit	(310,935)	(684,905)
Others	(2,564,760)	(1,296,795)
	<u>₩ (7,155,924)</u>	<u>₩ 22,754,253</u>
	<u>₩ (18,309,253)</u>	<u>₩ 18,171,281</u>

**24. Capital stock**

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

Changes in capital stock for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands, thousand stocks):

Year ended December 31, 2017	Issued shares	Capital stock
January 1, 2017	496,638,534	₩ 496,638,534
Issuance of comprehensive stock exchange	109,002,538	109,002,538
Issued convertible preferred stock	111,847,818	111,847,818
December 31, 2017	<u>717,488,890</u>	<u>₩ 717,488,890</u>
Year ended December 31, 2016	Issued shares	Capital stock
January 1, 2016	496,638,534	₩ 496,638,534
Issuance of comprehensive stock exchange	-	-
Issued convertible preferred stock	-	-
December 31, 2016	<u>496,638,534</u>	<u>₩ 496,638,534</u>

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

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

(1) 1st issue

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

(2) 2nd issue

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

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

(3) 3rd issue

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

(4) 4th issue

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

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

(5) 5th issue

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

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

(6) 6th issue

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

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

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

7) 7th issue

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

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

8) 8th issue

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



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

8) 8th issue

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

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

**25. Other capital**

Other capital as at December 31, 2017 and 2016 consist of the following (Korean won in thousands):

	December 31, 2017	December 31, 2016
Paid in capital in excess of par value	₩ 1,407,563,120	₩ 556,127,022
Gain on disposal of treasury stock	3,456,342	3,456,342
Others (*)	1,961,311	1,961,311
Treasury stock	(9,717,880)	(9,711,997)
Stock options (*)	2,054,094	1,318,796
	₩ 1,405,316,987	₩ 553,151,474

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

Changes in other capital for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance	₩ 553,151,474	₩ 552,416,177
Acquisition of treasury stock	(5,883)	-
Allocated expense of share based payment	735,298	735,297
Adjustment of capital surplus from merger	17,710,181	-
Issuance of new shares through comprehensive stock exchange	198,969,174	-
Issued convertible preferred stock	634,756,743	-
	₩ 1,405,316,987	₩ 553,151,474

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**26. Share-based payment transaction**

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

The details of stock options granted by the Group as at December 31, 2017 are summarized as follows (Korean won and number of shares):

	Stock options granted	Settlement date	Number of shares that can be exercised	Exercise price	Exercisable period	Grant date fair value
Meritz Securities Co., Ltd.	2,900,000	2015.03.20	2,900,000	₩ 4,380	2020.01.01 ~2024.12.31	₩ 1,109
Meritz Financial Group Inc.	1,232,000	2015.03.20	1,232,000	10,820	2020.01.01 ~2024.12.31	4,838

Changes in stock options granted during the years ended December 31, 2017 and 2016 are summarized as follows (number of shares):

	Years ended December 31, 2017		Years ended December 31, 2016	
	Meritz Securities Co., Ltd.	Meritz Financial Group Inc.	Meritz Securities Co., Ltd.	Meritz Financial Group Inc.
January 1	2,900,000	-	2,900,000	-
Number of options granted	-	-	-	-
Increase due to business combination (*)	-	1,232,000	-	-
Number of options decreased	-	-	-	-
December 31	2,900,000	1,232,000	2,900,000	-

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

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

	Date	Closing price	Option price	Expected volatility (*)	Risk free interest rate	Dividend yield ratio
Meritz Securities Co., Ltd.	2015.03.20	₩ 5,010	₩ 4,380	24.43%	2.12%	4.90%
Meritz Financial Group Inc.	2015.03.20	₩ 14,250	₩ 10,820	5.67%	2.14%	2.11%

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

Other capital granted stock option of the Group is amounted to ₩4,137,621 thousand and ₩3,402,323 thousand as at December 31, 2017 and 2016. Also, the Group has accounted for share-based payments (₩3,404,116 thousand) as sales and administrative expense for the year ended December 31, 2017.

The Group recognizes an incentive for certain executives as an expense in the period services are received, while it implements the payment method that connects the incentive with daily average stock prices and the incentive is paid in cash. In this cash-settled share-based payment transactions, the Group recognizes the liability incurred at fair value at each reporting date. Any changes in fair value are recognized as profit or loss. For the fair value of the liability, Monte Carlo Simulation is utilized by using the stock price prediction method. Details of the cash-settled share-based payments for the year ended December 31, 2017 are as follows (Korean won in thousands):

Book value	Before fair value assessment	Variation of fair value	Intrinsic value of liability
₩ 69,034,465	₩ 53,711,766	₩ 15,322,699	₩ 69,949,641

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**27. Accumulated other comprehensive income**

Accumulated other comprehensive income as at December 31, 2017 and 2016 consist of the following (Korean won in thousands):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Gain on valuation of available-for-sale financial assets:		
Stock	₩ 102,422,639	₩ 100,108,534
Bonds	(327,883)	8,024,308
Collective investment securities	7,299,901	(5,334,018)
Commercial paper	80,097	212,718
Foreign currency securities	-	381,840
Income tax effect	(28,906,085)	(24,903,648)
	<u>₩ 80,568,669</u>	<u>₩ 78,489,734</u>
Capital change in equity method		
Capital change in equity method	-	718,852
Income tax effect	-	(173,028)
	<u>₩ -</u>	<u>₩ 545,824</u>
Gain (loss) on effect of foreign currency translation		
Gain (loss) on effect of foreign currency translation	(99,852)	-
Income tax effect	26,401	-
	<u>₩ (73,451)</u>	<u>₩ -</u>
Remeasurement of the defined benefit liability:		
Actuarial loss	(364,986)	(825,788)
Income tax effect	93,087	210,276
	<u>₩ (271,899)</u>	<u>₩ (615,512)</u>
Non-controlling interest	-	(587,609)
	<u>₩ 80,223,319</u>	<u>₩ 79,007,655</u>

**28. Retained earnings**

Retained earnings as at December 31, 2017 and 2016 consist of the following (Korean won in thousands):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Legal reserve	₩ 46,049,435	₩ 36,979,394
Regulatory reserve for possible loan losses	23,675,829	12,276,239
Voluntary reserves	42,466,457	42,466,457
Unappropriated retained earnings	897,637,962	657,790,477
	<u>₩ 1,009,829,683</u>	<u>₩ 749,512,567</u>

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

Changes in unappropriated retained earnings for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Beginning balance	₩ 657,790,477	₩ 513,713,429
Regulatory reserve for possible loan losses(gains)	(11,399,590)	5,466,358
Cash dividends	(90,700,406)	(104,305,466)
Reserve of legal reserve	(9,070,041)	(10,930,547)
Net income of non-controlling interests	351,017,522	253,846,703
Ending balance	<u>₩ 897,637,962</u>	<u>₩ 657,790,477</u>

In case the total sum of allowance for possible loan losses does not meet the amount prescribed in the Regulations 3-8 on Financial Investment Business, the Group is required to compensate for the difference, if any, at the reporting date as a regulatory reserve for possible loan losses. In case the amount of the existing regulatory reserve for possible loan losses exceeds the amount needed to be set aside as 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 of the deficit.

Changes in regulatory reserve for possible loan losses for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Appropriated regulatory reserve for possible loan losses	₩ 23,675,829	₩ 12,276,239
Increase due to business combination (*1)	13,128,149	-
Planned provision of regulatory reserve for possible loan losses(*2)	59,753,943	11,399,590
Ending of regulatory reserve for possible loan losses	<u>₩ 96,557,921</u>	<u>₩ 23,675,829</u>

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

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

Provision of regulatory reserve for possible loan losses and adjusted income after the provision of regulatory reserve for possible loan losses for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	<u>Year ended December 31, 2017</u>	<u>Year ended December 31, 2016</u>
Net income	₩ 355,237,196	₩ 253,846,703
Planned provision of regulatory reserve for possible loan losses	(59,753,943)	(11,399,590)
Adjusted income after provision of regulatory reserve for possible loan losses (*)	₩ 295,483,253	₩ 242,447,113
Earnings per share	521	535

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

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

The details of dividends accounted for in the statements of appropriation of retained earnings for the years ended December 31, 2017 and 2016 are as follows:

Dividend calculation details (Korean won in thousands):

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

	Year ended December 31, 2016			
	Number of shares to be assigned(*)	Fixed dividend rate	A dividend per share	Total dividend
Common stock	453,502,028	20%	₩ 200	₩ 90,700,406

(\*) Treasury stock held by the Company is excluded as at December 31, 2017 and 2016.

Dividend payout ratio (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Total dividend	₩ 128,798,437	₩ 90,700,406
Net income attributable to equity holders of the parent	351,017,522	253,846,703
Dividend payout ratio	36.69%	35.73%

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

	Year ended December 31, 2017	Year ended December 31, 2016
A dividend per share	₩ 200	₩ 200
Average of pre-dividend closing price per share(*2)	4,659	3,671
Dividend yield ratio	4.3%	5.4%

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

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

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**29. Net fees and commission income**

Net fees and commission income for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017		Year ended December 31, 2016	
Fees and commission income:				
Brokerage commissions	₩	74,506,857	₩	72,990,925
Underwriting commissions		15,859,737		26,514,261
Brokerage commissions on collective investment securities		4,791,418		4,580,330
Management fees on wrap account and asset management		2,740,657		1,357,714
Finance commissions		178,260,212		135,102,720
Fees on trust accounts		3,378,711		3,116,893
Commissions on CMA		17,966		107,901
Others		133,300,301		99,503,096
	₩	412,855,859	₩	343,273,840
Fees and commission expense:				
Trading commissions		(6,909,411)		(5,742,417)
Lending and borrowing transaction commissions		(10,304,481)		(10,365,901)
Others		(24,518,367)		(13,584,703)
	₩	(41,732,259)	₩	(29,693,021)
	₩	371,123,600	₩	313,580,819

**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, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017				
	Gain on disposal	Loss on disposal	Gain on valuation	Loss on valuation	Net gain (loss)
Financial assets held-for-trading:					
Stock	₩ 162,764,099	₩ (109,283,772)	₩ 17,773,674	₩ (3,075,095)	₩ 68,178,906
Bonds	160,920,051	(199,740,961)	5,420,760	(25,152,258)	(58,552,408)
Collective investment securities	205,355,067	(148,820,510)	10,977,542	(871,573)	66,640,526
Commercial paper	23,403,118	(1,821,594)	29,400	(116,112)	21,494,812
Asset backed short-term bonds	9,422,128	(331,476)	-	-	9,090,652
	₩ 561,864,463	₩ (459,998,313)	₩ 34,201,376	₩ (29,215,038)	₩ 106,852,488
Financial liabilities held-for-trading:					
Securities sold	75,414,952	(145,834,609)	8,029,800	(6,803,075)	(69,192,932)
Bonds sold	87,673,153	(82,652,732)	2,537,022	(1,631,530)	5,925,913
Collective investment securities sold	19,517	(106,362)	-	(283,989)	(370,834)
	₩ 163,107,622	₩ (228,593,703)	₩ 10,566,822	₩ (8,718,594)	₩ (63,637,853)
	₩ 724,972,085	₩ (688,592,016)	₩ 44,768,198	₩ (37,933,632)	₩ 43,214,635

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

	Year ended December 31, 2016				
	Gain on disposal	Loss on disposal	Gain on valuation	Loss on valuation	Net gain (loss)
Financial assets held-for-trading:					
Stock	₩ 70,566,564	₩ (68,273,756)	₩ 6,222,958	₩ (3,855,013)	₩ 4,660,753
Bonds	138,940,350	(182,919,134)	10,340,680	(39,172,280)	(72,810,384)
Collective investment securities	63,461,085	(62,438,398)	3,726,265	(2,309,550)	2,439,402
Commercial paper	25,845,397	(1,635,064)	450,432	(95,352)	24,565,413
Asset backed short-term bonds	13,751,541	(81,152)	78,198	-	13,748,587
	<u>₩ 312,564,937</u>	<u>₩ (315,347,504)</u>	<u>₩ 20,818,533</u>	<u>₩ (45,432,195)</u>	<u>₩ (27,396,229)</u>
Financial liabilities held-for-trading:					
Securities sold	49,925,948	(56,596,008)	5,393,119	(2,794,032)	(4,070,973)
Bonds sold	80,110,205	(44,768,525)	3,441,434	(2,635,957)	36,147,157
Collective investment securities sold	98,026	(57,064)	-	(12,133)	28,829
	<u>₩ 130,134,179</u>	<u>₩ (101,421,597)</u>	<u>₩ 8,834,553</u>	<u>₩ (5,442,122)</u>	<u>₩ 32,105,013</u>
	<u>₩ 442,699,116</u>	<u>₩ (416,769,101)</u>	<u>₩ 29,653,086</u>	<u>₩ (50,874,317)</u>	<u>₩ 4,708,784</u>

Gain (loss) on financial assets and liabilities designated at fair value through profit or loss for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017				
	Gain on disposal	Loss on Disposal	Gain on valuation	Loss on valuation	Net gain (loss)
Financial assets designated at fair value through profit or loss:					
Equity linked securities	₩ 510,018	₩ -	₩ -	₩ (4,077)	₩ 505,941
Derivatives linked securities	6	-	-	-	6
Reserve for claims of customers' deposits (trust)	-	-	4,926,589	-	4,926,589
Others	2,417,411	(461,624)	23,226,958	(437,986)	24,744,759
	<u>₩ 2,927,435</u>	<u>₩ (461,624)</u>	<u>₩ 28,153,547</u>	<u>₩ (442,063)</u>	<u>₩ 30,177,295</u>
Financial assets designated at fair value through profit or loss:					
Equity linked securities sold	9,120	(1,785,750)	1,847,786	(2,264)	68,892
Derivative linked securities sold	2,293,224	(4,014,475)	309,018	(3,034,647)	(4,446,880)
Others	-	(2,386,104)	-	(38,640)	(2,424,744)
	<u>₩ 2,302,344</u>	<u>₩ (8,186,329)</u>	<u>₩ 2,156,804</u>	<u>₩ (3,075,551)</u>	<u>₩ (6,802,732)</u>
	<u>₩ 5,229,779</u>	<u>₩ (8,647,953)</u>	<u>₩ 30,310,351</u>	<u>₩ (3,517,614)</u>	<u>₩ 23,374,563</u>



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

	Year ended December 31, 2016				
	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	₩ 35,388	₩ (201)	₩ 616,795	₩ -	₩ 651,982
Derivatives linked securities	40,268	(1,688)	-	-	38,580
Reserve for claims of customers' deposits (trust)	-	-	4,602,561	-	4,602,561
Others	1,177,584	-	466,679	(6,397,183)	(4,752,920)
	<u>₩ 1,253,240</u>	<u>₩ (1,889)</u>	<u>₩ 5,686,035</u>	<u>₩ (6,397,183)</u>	<u>₩ 540,203</u>
Financial assets designated at fair value through profit or loss:					
Equity linked securities sold	26,195	(1,230,853)	13,014	(1,186,711)	(2,378,355)
Derivative linked securities sold	3,219	(5,193,876)	509,257	(6,821,513)	(11,502,913)
Others	-	-	-	(601,635)	(601,635)
	<u>₩ 29,414</u>	<u>₩ (6,424,729)</u>	<u>₩ 522,271</u>	<u>₩ (8,609,859)</u>	<u>₩ (14,482,903)</u>
	<u>₩ 1,282,654</u>	<u>₩ (6,426,618)</u>	<u>₩ 6,208,306</u>	<u>₩ (15,007,042)</u>	<u>₩ (13,942,700)</u>

Gain (loss) on available-for-sale financial assets for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017			
	Gain on disposal	Loss on disposal	Impairment loss	Net gain (loss)
Stock	₩ 4,370,329	₩ (1,148,709)	₩ (2,101,474)	₩ 1,120,146
Bonds	2,696,087	(415,566)	-	2,280,521
Collective investment securities	1,631,056	(1,593)	(6,297,613)	(4,668,150)
Foreign currency securities	-	-	-	-
Corporate note	482	-	-	482
Others	28,539	(46,743)	-	(18,204)
	<u>₩ 8,726,493</u>	<u>₩ (1,612,611)</u>	<u>₩ (8,399,087)</u>	<u>₩ (1,285,205)</u>
	Year ended December 31, 2016			
	Gain on disposal	Loss on disposal	Impairment loss	Net gain (loss)
Stock	₩ 4,981,670	₩ (9,777,396)	₩ (1,405,897)	₩ (6,201,623)
Bonds	7,763,618	(1,247,976)	-	6,515,642
Collective investment securities	5,928,751	(904,483)	(293)	5,023,975
Foreign currency securities	24,537	-	-	24,537
Corporate note	-	-	-	-
Others	-	-	-	-
	<u>₩ 18,698,576</u>	<u>₩ (11,929,855)</u>	<u>₩ (1,406,190)</u>	<u>₩ 5,362,531</u>

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

Gain (loss) on other financial liabilities for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

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

  

	Year ended December 31, 2016			
	Loss on redemption	Gain on valuation	Loss on valuation	Net gain
Debentures	₩ -	₩ -	₩ -	₩ -
Other financial liabilities	-	6,023	(6)	6,017
	₩ -	₩ 6,023	₩ (6)	₩ 6,017

Gain (loss) on financial derivatives for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017				
	Gain on disposal/redemption	Loss on disposal/redemption	Gain on valuation	Loss on valuation	Net gain(loss)
Exchange-traded derivatives:					
Futures	₩ 286,341,752	₩ (285,850,246)	₩ 6,384,135	₩ (18,341,600)	₩ (11,465,959)
Option	59,587,326	(51,468,590)	6,940,032	(6,135,896)	8,922,872
Over-the-counter derivatives:	2,292,756,425	(2,282,235,734)	24,965,088	(32,121,012)	3,364,767
	₩ 2,638,685,503	₩ (2,619,554,570)	₩ 38,289,255	₩ (56,598,508)	₩ 821,680

  

	Year ended December 31, 2016				
	Gain on disposal/redemption	Loss on disposal/redemption	Gain on valuation	Loss on valuation	Net gain
Exchange-traded derivatives:					
Futures	₩ 295,217,058	₩ (255,870,255)	₩ 2,398,898	₩ (11,289,735)	₩ 30,455,966
Option	27,508,549	(31,083,585)	5,098,526	(790,661)	732,829
Over-the-counter derivatives:	2,141,711,299	(2,133,241,583)	88,230,467	(65,476,214)	31,223,969
	₩ 2,464,436,906	₩ (2,420,195,423)	₩ 95,727,891	₩ (77,556,610)	₩ 62,412,764

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**31. Net interest income**

Net interest income for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Interest income:		
Cash and due from banks	₩ 15,391,317	₩ 10,244,916
Held-for-trading financial assets	177,976,355	177,297,346
Available-for-sale financial assets	28,113,434	13,828,936
Loans, etc.	429,811,177	261,808,390
CMA	170,711	1,144,551
Others	11,420,629	14,055,617
	<u>662,883,623</u>	<u>478,379,756</u>
Interest expense:		
Deposits	(36,095,037)	(46,037,985)
Borrowings	(146,961,275)	(125,062,439)
Bonds	(99,247,946)	(50,973,965)
Others	(17,106,939)	(20,816,815)
	<u>(299,411,197)</u>	<u>(242,891,204)</u>
	<u>₩ 363,472,426</u>	<u>₩ 235,488,552</u>

**32. Selling and administrative expense**

Selling and administrative expenses for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Payroll expenses:		
Salary expenses	₩ 259,125,708	₩ 193,998,949
Post-employment benefits (DB)	4,485,969	4,382,567
Post-employment benefits (DC)	4,666,012	3,224,102
Early retirement benefits	546,764	2,873,139
Compensation Expenses Associated with Stock Option	3,404,116	735,298
	<u>₩ 272,228,569</u>	<u>₩ 205,214,055</u>
General and administrative expenses:		
Employee benefits	26,627,928	25,601,303
Electronic data processing expenses	8,850,712	8,153,227
Rental expense	8,174,446	7,213,848
Commission expense	25,339,703	20,014,832
Entertainment expenses	7,312,317	8,139,706
Advertising expense	2,158,839	1,330,825
Depreciation	7,295,108	5,891,509
Training expenses	205,974	128,897
Amortization	5,705,156	7,109,290
Taxes and dues	25,540,055	17,947,584
Others	15,349,959	12,898,647
	<u>₩ 132,560,197</u>	<u>₩ 114,429,668</u>
	<u>₩ 404,788,766</u>	<u>₩ 319,643,723</u>

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

Other operating income (expense) for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Other operating income:		
Dividends on financial assets held for trading	₩ 8,580,663	₩ 4,799,610
Dividends on available-for-sale financial assets	4,923,729	8,675,092
Reversal of other provisions	8,269,944	18,088
Reversal of credit risk adjustments	24,891	214,981
Reversal of deferred day 1 profit or loss adjustments	9,993,426	5,806,488
Others	1,086,926	1,537,198
	<u>₩ 32,879,579</u>	<u>₩ 21,051,457</u>
Other operating expenses:		
Provision for other doubtful accounts	(1,035,759)	(197,500)
Provision for other provisions	(63,000)	(3,711,332)
Provision for credit risk adjustments	(207,115)	(143,671)
Amortization of deferred day 1 profit or loss adjustments	(835,521)	(1,284,265)
Others	(1,145,315)	(35,644)
	<u>₩ (3,286,710)</u>	<u>₩ (5,372,412)</u>
	<u>₩ 29,592,869</u>	<u>₩ 15,679,045</u>

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

Non-operating income (expense) for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Non-operating income:		
Gain on disposal property and equipment	₩ 1,248,730	₩ 64,988
Gains on disposition of real-estate investment	2,155,919	-
Rental fee income	892,933	1,525,158
Share of earnings from investments in associates and joint ventures	15,692,528	4,250,794
Recovery of impairment loss on investments in subsidiaries and associates, joint ventures	-	47,965
Gain on disposal subsidiaries and associates	7,086,891	973,201
Gain on Sale of Intangible Assets	585,557	368,405
Others	411,856	1,400,004
	<u>₩ 28,074,414</u>	<u>₩ 8,630,515</u>
Non-operating expense:		
Loss on disposal property and equipment	(237,250)	(300,236)
Loss on disposal investment properties	(566,849)	(85,597)
Loss on disposal intangible assets	(45,095)	(124,100)
Share of losses from investments in associates and joint ventures	(1,297,674)	(1,797,774)
Loss on disposal subsidiaries and associates	(2,271,148)	(97,785)
Impairment losses on subsidiaries and associates	-	(13,303)
Others	(868,678)	(464,834)
	<u>₩ (5,286,694)</u>	<u>₩ (2,883,629)</u>
	<u>₩ 22,787,720</u>	<u>₩ 5,746,886</u>

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**35. Income taxes**

The major components of income tax expense for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Current income taxes	₩ 118,843,099	₩ 84,989,417
Adjustments of prior year's income tax	(666,815)	(2,107,434)
Changes in deferred income taxes due to temporary differences	40,291,454	(1,160,515)
Deferred income tax income from unrecognized deferred income tax assets(liabilities)	(43,585,659)	-
Current and deferred income taxes recognized directly to equity :		
Gain (loss) on valuation of available-for-sale financial assets	(3,823,623)	(2,807,239)
Equity method capital change	173,028	(173,028)
Loss (gain) on effect of foreign currency translation	26,401	3,226
Remeasurement of the defined benefit liability	(124,880)	11,729
Income tax expense	<u>₩ 111,133,005</u>	<u>₩ 78,756,156</u>

Details of the relationship between income tax expense and income before income taxes for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Income before income taxes	₩ 466,370,202	₩ 332,602,859
Income taxes at statutory tax rate (*1)	112,399,588	80,027,892
Adjustments:		
Non-deductible expenses and others	1,910,342	1,879,610
Non-taxable income and others	(1,404,556)	(166,926)
Income tax on undistributed corporate earnings	860,420	(1,232,644)
Adjustments of prior year's income tax	(666,815)	(2,107,434)
Others	(1,965,974)	355,658
Income tax expense	<u>₩ 111,133,005</u>	<u>₩ 78,756,156</u>
Effective income tax rate	23.83%	23.68%

(\*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, 2017 and 2016.

The details of tax liabilities as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Deferred income tax assets	₩ 82,969,767	₩ 65,029,381
Income tax assets	82,969,767	65,029,381
Current income tax liabilities	55,107,460	14,966,779
Income tax liabilities	55,107,460	14,966,779

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

Temporary differences and deferred income tax assets (liabilities) as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017	December 31, 2016
Finance lease receivables	₩ (5,012,131)	₩ (1,064,695)
Loss on valuation of financial liabilities held-for-trading	(487,017)	(816,558)
Gain (loss) on valuation of financial assets held-for-trading	(1,307,065)	5,922,405
Gain (loss) on valuation of financial assets designated at fair value through profit or loss	(4,750,770)	1,414,051
Gain (loss) on valuation of derivatives-combined securities sold	(17,289)	1,446,002
Gain (loss) on valuation of derivatives-combined securities	273	(18,533)
Loss on valuation of derivative instruments	(32,810)	(11,454,651)
Deferred loan fee	5,655,635	3,388,951
Deferred day 1 profit or loss	(204,804)	522,253
Gain (loss) on foreign transactions	827,494	(554,313)
Allowance for loan losses	45,520	272,728
Withdrawal of sales transaction	(216,139)	(196,765)
Available-for-sale financial assets	(24,698,896)	(17,733,810)
Accrued income	(8,293,287)	(5,589,979)
Accrued expenses	49,942,490	23,974,317
Credit risk-adjusted	(42,836)	(82,858)
Property and equipment, intangible assets	(7,437,287)	(7,657,616)
Subsidiaries and associates	(39,509,452)	4,420,396
Allowance accounts	432,155	2,451,832
Retirement pension premium	(3,081,726)	(2,521,454)
Defined benefit liabilities	3,523,868	3,154,049
Treasury stock	60,577,921	60,277,411
Loss on merger	9,402,755	-
Others	4,067,506	5,476,218
	<u>₩ 39,384,108</u>	<u>₩ 65,029,381</u>
Unrecognized deferred tax liabilities	43,585,659	-
Deferred Income Taxes Assets	82,969,767	65,029,381
Deferred income tax assets	134,475,617	112,720,613
Deferred income tax liabilities	(51,505,850)	(47,691,232)

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

Changes in the temporary differences and deferred income tax assets (liabilities) for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

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



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

	Year ended December 31, 2016		
	Beginning balance (*1)	Changes	Ending balance
Financial lease receivables	₩ (12,054,027)	₩ 7,630,700	₩ (4,423,327)
Gain (loss) on valuation of financial liabilities held-for-trading	1,174,993	(4,567,423)	(3,392,430)
Gain (loss) on valuation of financial assets held-for-trading	1,918,730	22,686,195	24,604,925
Gain (loss) on valuation of financial assets designated at fair value through profit or loss	(2,699,630)	8,574,376	5,874,746
Gain (loss) on valuation of derivatives-combined securities sold	(530,126)	6,537,613	6,007,487
Gain (loss) on valuation of derivatives-combined securities	1,360,577	(1,437,573)	(76,996)
Gain (loss) on valuation of derivative instruments	(13,089,566)	(34,499,347)	(47,588,913)
Deferred loan fee	10,496,193	3,583,371	14,079,564
Deferred day 1 profit or loss	(802,398)	2,972,123	2,169,725
Gain (loss) on foreign transactions	(285,403)	(2,017,519)	(2,302,922)
Allowance for loan losses	2,435,671	(1,302,610)	1,133,061
Lease	22,742	(22,742)	-
Withdrawal of sales transaction	(817,468)	-	(817,468)
Available-for-sale financial assets	(67,784,890)	(5,891,084)	(73,675,974)
Accrued income	(19,132,134)	(4,091,708)	(23,223,842)
Accrued expenses	110,847,814	(11,245,336)	99,602,478
Credit risk-adjusted	(272,928)	(71,309)	(344,237)
Property and equipment, intangible assets	(29,538,586)	(2,275,356)	(31,813,942)
Subsidiaries and associates	20,968,559	(2,603,805)	18,364,754
Allowance accounts	6,865,566	3,320,692	10,186,258
Retirement pension premium	(8,180,804)	(2,294,701)	(10,475,505)
Defined benefit liabilities	10,230,193	2,873,461	13,103,654
Treasury stock	250,425,472	-	250,425,472
Loss on merger	-	-	-
Others	3,457,506	19,293,706	22,751,212
	<u>₩ 265,016,056</u>	<u>₩ 5,151,724</u>	<u>₩ 270,167,780</u>
Unrecognized deferred tax liabilities (*2)	-	-	-
Deferred income tax liabilities	₩ 63,868,867	₩ 1,160,514	₩ 65,029,381

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

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

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

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**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, 2017 and 2016 are as follows (Korean won except per share amounts):

	Year ended December 31, 2017	Year ended December 31, 2016
Net income attributable to the common stock holder of the parent	₩ 334,719,660,779	₩ 253,846,703,366
Weighted average number of common stock outstanding (*)	527,562,870	453,502,028
Basic earnings per share	₩ 634	₩ 560

(\*) 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, 2017 and 2016 are as follows (Korean won):

	Year ended December 31, 2017	Year ended December 31, 2016
Net income attributable to equity holders of the parent	₩ 334,719,660,779	₩ 253,846,703,366
Redeemable convertible preferred stock dividend	16,297,861,706	-
Dilution gain on controlling common equity (A)	₩ 351,017,522,485	₩ 253,846,703,366
Weighted average number of ordinary shares outstanding	527,562,870	453,502,028
Dilution effect _convertible preferred stock	56,996,422	-
Weighted average number of common shares outstanding considering dilution effect (B)	584,559,292	453,502,028
Diluted earnings per share (A/B)	₩ 600	₩ 560

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

Significant assets and liabilities denominated in foreign currencies as at December 31, 2017 and 2016 are as follows (Korean won in thousands or USD, JPY, EUR, HKD, NOK, CNH, AUD, GBP, CAD, MYR, BRL, SEK):

	Currency	December 31, 2017	
		Amount in foreign currency in unit	Korean won equivalent
Assets in foreign currencies:			
Cash and due from banks	USD	54,040,964	₩ 57,899,490
	EUR	7,926,478	10,139,948
	HKD	4,433,728	607,731
	JPY	22,315,161	211,795
	GBP	-	-
	CNH	4,734,566	774,812
	AUD	2,316	1,934
	NOK	-	-
	CAD	1,967	1,677
	MYR	-	-
	BRL	-	-
	SEK	189	24
Financial assets at fair value through profit or loss	USD	96,051,887	102,909,992
	JPY	398,911,000	3,786,104
	SEK	224,366,495	29,145,208
	CNH	4,724,505	773,165
	HKD	1,781,275	244,159
Available-for-sale financial assets	USD	-	-
Loans	USD	135,000,000	144,639,000
Other assets	USD	14,356,623	15,381,686
	EUR	102,867	131,592
	JPY	456,986	4,337
	SEK	34,500	4,482
			₩ 366,657,136
Liabilities in foreign currency:			
Deposits	USD	895,621	₩ 959,568
Financial liabilities at fair value through profit or loss	USD	6,003,264	6,431,897
Borrowings	USD	34,357,933	36,811,089
Other liabilities	USD	16,000,000	17,142,400
	JPY	28,039	35,868
			₩ 61,380,822

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

	December 31, 2016		
	Currency	Amount in foreign currency in unit	
Assets in foreign currencies:			
Cash and due from banks	USD	26,402,834	₩ 31,907,825
	EUR	624,756	791,941
	HKD	349,417	54,450
	JPY	224,410,840	2,326,714
	GBP	252,191	373,286
	CNH	9,189	1,592
	AUD	35,675	31,110
	NOK	2	1
	CAD	44,655	39,954
	MYR	21,300	5,741
	BRL	21,577	8,013
	SEK	-	-
Financial assets at fair value through profit or loss	USD	87,737,525	106,030,798
	JPY	100,516,000	1,042,160
	SEK	-	-
	CNH	-	-
	HKD	-	-
Available-for-sale financial assets	USD	8,880,000	10,731,480
Loans	USD	-	-
Other assets	USD	44,729,089	54,055,104
	EUR	-	-
	JPY	168,329	1,745
	SEK	-	-
			<u>₩ 207,401,914</u>
Liabilities in foreign currency:			
Deposits	USD	5,395,809	₩ 6,520,836
Financial liabilities at fair value through profit or loss	USD	48,454,106	58,556,787
Borrowings	USD	-	-
Other liabilities	USD	19,600,000	23,686,600
	JPY	-	-
			<u>₩ 88,764,223</u>

**Meritz Securities Co., Ltd. and its subsidiaries**  
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**38. Pledged assets**

Restricted balances in due from banks as at December 31, 2017 and 2016 are summarized as follows (Korean won in thousands):

	Counterparty	Others information	December 31, 2017	December 31, 2016
Cash and Deposits:				
Restricted due from financial institutions	KB Bank and others	Deposits for checking accounts	₩ 84,500	₩ 174,500
Long-term deposits	Woori Bank and others	Pledged for settlement	2,000,000	2,000,000
Reserve for claims of customers' deposits	Korea Securities Finance Corporation ("KSFC")	(*)	194,000,000	38,410,380
Margin on securities market	KRX		11,000,000	-
Guarantee deposits for loan transaction	Korea Securities Depository and others		12,281,321	62,101,200
Guarantee deposits for trading futures and options (brokerage)	KRX		49,946,101	37,100,000
Financial asset at fair value through profit or loss:				
Reserve for claims of customers' deposits(Trust)	KSFC	(*)	372,231,592	270,866,951
Available-for-sale financial assets:				
Collective fund for default loss	KRX		12,165,148	8,314,005
			<u>₩ 653,708,662</u>	<u>₩ 418,967,036</u>

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

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

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

				December 31, 2017	
Pledged to	Description of pledged asset	Pledged amount(*)	Pledged for		
KRX	Bonds	₩ 74,037,425	Derivative transaction		
KSD & KSFC	ETF beneficiary certificate, Stocks, CP, Bonds	2,415,932,089	Lending and borrowing transactions		
KSD and others	Bonds	6,774,070,162	Bonds under repurchase agreements		
KSD	Stocks, Bonds	-	Collateral of borrowings		
KSFC and others	Bonds	26,070,057	Payment fund		
RREEF SPEZIAL INVEST GmbH	Bonds	1,884,010	Withholdings		
		₩ 9,291,993,743			
				December 31, 2016	
Pledged to	Description of pledged asset	Pledged amount(*)	Pledged for		
KRX	Bonds	₩ 66,616,598	Derivative transaction		
KSD & KSFC	ETF beneficiary certificate, Stocks, CP, Bonds	2,537,054,577	Lending and borrowing transactions		
KSD and others	Bonds	5,639,142,725	Bonds under repurchase agreements		
KSD	Stocks, Bonds	139,087,588	Collateral of borrowings		
KSFC and others	Bonds	27,274,899	Payment fund		
RREEF SPEZIAL INVEST GmbH	Bonds	1,899,642	Withholdings		
		₩ 8,411,076,029			

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

### 39. Guarantees and commitments

#### Credit line facilities

The Group has the following agreements with several banks as at December 31, 2017 (Korean won in thousands, USD):

Agreement	Bank	Currency	Maximum limit	Maturity date
Intraday overdraft	Woori Bank	KRW	10,000,000	2018.09.07
Intraday overdraft	Woori Bank	KRW	50,000,000	2018.09.07
Intraday overdraft	Hana Bank	KRW	10,000,000	2018.10.29
Intraday overdraft	Shinhan Bank	KRW	20,000,000	2018.09.05
Intraday overdraft	KB Bank	KRW	5,000,000	2018.11.23
Overdraft	KB Bank	KRW	5,000,000	2018.07.06
Overdraft	Daegu Bank	KRW	5,000,000	2018.06.29
Exhortation guarantee	Meritz Financial Group	KRW	1,000,000,000	-
Limit on non-disclosure commitments	Meritz Fire & Marine Insurance	KRW	150,000,000	2018.08.14
Performance payment guarantee	Seoul guarantee Insurance The Korea	-	5,474,219	Individual contract
Usance letter of credit	Development Bank	USD	20,000,000	2018.06.09
At sight letter of credit	KB Bank	USD	5,000,000	2018.04.13
At sight letter of credit	Woori Bank	USD	7,000,000	2018.07.06
Note discounted	KSFC	KRW	200,000,000	2019.10.31
Note discounted	KSFC	-	Subscription money	2019.10.31
Agency operating funds	KSFC	KRW	400,000,000	2020.03.02
Agency operating funds (trust)	KSFC	-	Within the scope of trust funds	2020.03.02
Financial capital distribution	KSFC	KRW	150,000,000	2022.03.29
Mortgage financing	KSFC	KRW	700,000,000	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 38 lawsuits (plaintiff: 23 cases, defendant: 14 cases) with the total claim amounting ₩25,927 million. The Group provided provisions estimated from previous experiences in similar lawsuits (balance of provisions: ₩325 million) as at December 31, 2017 (Note 20).



**Meritz Securities Co., Ltd. and its subsidiaries**  
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**39. Guarantees and commitments (cont'd)**

**Purchase agreement**

The Group's purchase agreements as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017	
	Maximum limit	Balance
ABCP purchase commitment (*1,4)	₩ 400,000,000	₩ 400,000,000
Commitments on Acceptance for Securities footnotes (*4)	216,800,000	216,800,000
Conditional loan commitment(*4)	9,400,000	9,400,000
Loan commitment(*4)	2,806,136,319	1,523,372,033
Mortgage loan commitment (*2,4)	1,392,693,500	1,392,693,500
	₩ 4,825,029,819	₩ 3,542,265,533
Duplicate commitment amount (*3)	(180,199,002)	(180,199,002)
	₩ 4,644,830,817	₩ 3,362,066,531
	December 31, 2016	
	Maximum limit	Balance
ABCP purchase commitment (*1,4)	₩ 239,370,000	₩ 239,370,000
Commitments on Acceptance for Securities footnotes (*4)	55,000,000	55,000,000
Conditional loan commitment(*4)	-	-
Loan commitment(*4)	1,078,990,000	687,723,645
Mortgage loan commitment (*2,4)	1,985,868,000	1,985,868,000
	₩ 3,359,228,000	₩ 2,967,961,645
Duplicate commitment amount (*3)	(380,584,082)	(380,584,082)
	₩ 2,978,643,918	₩ 2,587,377,563

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

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

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

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

Details of the Group's agreements as at December 31, 2017 are as follows (Korean won in thousands):

	Opponent	December 31, 2017	
		Maximum limit	Balance
ABCP purchase commitment	SINCHON BEST 1 <sup>ST</sup> , INC.	₩ 130,000,000	₩ 130,000,000
	SINCHON BEST 2 <sup>ND</sup> , INC.		
	SINCHON BEST 4 <sup>TH</sup> , INC.		
	Cheongra A Best Inc.		
	YEONGJONG BEST INC.		
	TETRA HDP 1ST CO., LTD.		
	MEEGEREN 5 CO., LTD.		
	Yield-Up 19th Co., Ltd.		
	MS Premium 1st Co., Ltd.		
	Swallow One Co., Ltd.		
		₩ 400,000,000	₩ 400,000,000

**Meritz Securities Co., Ltd. and its subsidiaries**  
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**39. Guarantees and commitments (cont'd)**

	Opponent	December 31, 2017	
		Maximum limit	Balance
Commitments on acceptance for securities footnotes	YONGSAN PROJECT 1 <sup>ST</sup> , CO., LTD.	₩ 161,800,000	₩ 161,800,000
	M FUTURE RIO 1 <sup>ST</sup> , CO., LTD.	55,000,000	55,000,000
		₩ 216,800,000	₩ 216,800,000
Conditional commitments on loan	NAMYANGJU HWADO HYUNDAI AREA ASSOCIATION	9,400,000	9,400,000
		₩ 9,400,000	₩ 9,400,000
Limit loan	Songdo American Town Co., Ltd.	80,000,000	38,110,000
	JS Partners Development Company Ltd.	60,000,000	26,716,667
	RBDK CO., LTD.	53,300,000	25,210,000
	MSA CO., LTD.	50,000,000	26,375,000
	LCT PFV CO., LTD.	50,000,000	220,000
	MIRAE INDUSTRIAL DEVELOPMENT CO., LTD.	45,000,000	36,600,000
	The PJ Co., Ltd.	42,000,000	21,505,626
	SG D & C CO., LTD.	40,000,000	30,100,000
	NAMYANGJU HWADO HYUNDAI AREA ASSOCIATION	40,000,000	9,000,000
	BUY AND SELL DEVELOPMENT CO., LTD.	38,000,000	500,000
	Nike, INC	36,500,000	8,909,620
	BA STAR CO., LTD.	35,000,000	19,000,000
	Jinwi3 Industrial Park Co., Ltd.	31,500,000	19,700,000
	Haegeum Limited Company	30,500,000	7,250,000
	SNK CO., LTD.	30,000,000	25,300,000
	URAM DEVELOPMENT CO., LTD.	30,000,000	30,000,000
	SB DEVELOPMENT PROJECT CO., LTD.	30,000,000	12,197,800
	Seongnamsi SinheujngYeok Development Agency Co., Ltd.	30,000,000	13,235,000
	SW D&C CO., LTD.	30,000,000	11,300,000
	Jinwi3 Industrial Park	30,000,000	23,700,000
	BUGANG DEVELOPMENT CO., LTD.	30,000,000	10,500,000
	Isaac developer Co., Ltd.	28,000,000	16,032,000
	GASAN E & C CO., LTD.	26,500,000	26,500,000
	CHUNGDAM E & C CO., LTD.	26,000,000	410,000
	MOKDONGPIEPEUBEULEE CO., LTD.	26,000,000	8,504,709
	Sambu Development	25,500,000	19,300,000
	CHEONGDAM PENT HOUSE PFV CO., LTD.	25,000,000	18,174,790
Dain Industrial Development Co., Ltd.	25,000,000	9,000,000	
The Uni-Star Co., Ltd.	25,000,000	8,367,000	
Garam D & C Co., Ltd.	25,000,000	13,800,000	
URAM DEVELOPMENT CO., LTD.	25,000,000	22,000,000	

39. Guarantees and commitments (cont'd)

	Opponent	December 31, 2017	
		Maximum limit	Balance
Limit loan	EMCHUDONG PRO JEKTEU 2 <sup>ND</sup> , INC.	₩ 23,750,000	₩ 8,000,000
	EMCHUDONG PRO JEKTEU 1 <sup>ST</sup> , INC.	23,750,000	8,000,000
	Las Flores Co., Ltd.	23,000,000	6,670,000
	We Are Master Co., Ltd.	22,500,000	12,000,000
	BIZ FORE GASAN CO., LTD.	21,700,000	11,600,000
	Yoon, Jung-gyu(individual business)	21,190,000	9,750,000
	SEHO DEVELOPMENT CO., LTD.	21,000,000	8,912,500
	L JEONGHOOM JISAN	21,000,000	13,468,000
	CHEONGDO INDUSTRIAL DEVELOPMENT CO., LTD.	20,000,000	14,842,000
	EVERA CO., LTD.	20,000,000	14,460,000
	YUL KOK CO., LTD.	20,000,000	12,857,143
	K&B CO., LTD.	20,000,000	16,000,000
	MR101 CO., LTD.	20,000,000	10,720,000
	Himchan Construction Inc.	20,000,000	8,100,000
	DUAM INDUSTRIAL CO., LTD.	20,000,000	7,140,000
	WOORI NARA CO., LTD.	20,000,000	7,400,000
	GWANGYEONGDIAENEM CO., LTD.	20,000,000	15,000,000
	KAON-BIT CO., LTD.	20,000,000	16,900,000
	NOBLE HILLS CO., LTD.	20,000,000	10,600,000
	WE FIRST CO., LTD.	20,000,000	12,700,000
	Wing Bridge I & D Co., Ltd.	20,000,000	613,000
	Premium Wonheecastle Co., Ltd.	20,000,000	17,600,000
	L JEONGHOOM JISAN INC.	20,000,000	12,161,852
	LESCO CO., LTD.	19,500,000	19,500,000
	Premium Wonheecastle Co., Ltd.	19,250,000	17,650,000
	CHUNG URBAN DEVELOPMENT CO., LTD.	19,000,000	3,401,000
	Isaac developer	18,800,000	16,068,000
	EUREKA CO., LTD.	18,500,000	10,000,000
	Haedeun Industrial Development Co., Ltd.	18,000,000	3,960,000
	GSALTPLUS	18,000,000	14,000,000
	URBAN LIGHT	17,000,000	17,000,000
	MYOSANG MYEONGDONG DEVELOPMENT INC.	17,000,000	6,100,000
	Yoon, Jung-gyu	16,000,000	7,500,000
ILOSAM CITY DEVELOPMENT CO., LTD.	16,000,000	11,267,000	
SJ Holdings	16,000,000	15,200,000	
A PARK GLOBAL CO., LTD.	16,000,000	6,000,000	
WE FIRST	15,900,000	15,900,000	

39. Guarantees and commitments (cont'd)

	Opponent	December 31, 2017	
		Maximum limit	Balance
Limit loan	MASTERN 21HO SB 9 PFV CO., LTD.	₩ 15,800,000	₩ 200,000
	Mega Asset	15,000,000	400,000
	MISA WORLD 1ST INC.	15,000,000	2,500,000
	Ilbeonji Building Co., Ltd.	15,000,000	200,000
	Haedeun Industrial Development	15,000,000	10,050,000
	SEHO DEVELOPMENT	15,000,000	9,368,000
	M Techno Center	15,000,000	3,400,000
	CHUNG URBAN DEVELOPMENT	15,000,000	2,685,000
	HAEKUM	15,000,000	7,500,000
	TJ OTIS	15,000,000	9,700,000
	RICH PERSON THINKING	15,000,000	6,640,000
	HAENGBOKHAN CITY CO., LTD.	15,000,000	13,845,000
	Haengbokhan City	15,000,000	14,070,000
	LK HOUSING	15,000,000	15,000,000
	SEJONG & PARTNERS	15,000,000	8,188,000
	JNG CO., LTD.	15,000,000	8,000,000
	Thanku Lord DNC	15,000,000	13,100,000
	MISA WORLD 2ND INC.	15,000,000	2,500,000
	INSTAR D & C CO., LTD.	15,000,000	8,525,000
	JS PARTNERS	15,000,000	11,575,000
	CM 101	15,000,000	2,728,000
	KAON-BIT	15,000,000	12,589,000
	Em Tower Co., Ltd.	15,000,000	12,700,000
	Songdo American Town	15,000,000	2,303,439
	Thanku Lord DNC Co., Ltd.	15,000,000	3,930,000
	LK HOUSING CO., LTD.	15,000,000	15,000,000
	SEUNGU VF	15,000,000	14,042,000
	SEJONG & PARTNERS CO., LTD.	15,000,000	7,200,000
	People & Future Co., Ltd.	15,000,000	2,150,000
	BORA CONSTRUCTION CO., LTD.	15,000,000	4,968,750
	Golden DMC	15,000,000	9,963,000
	SW D&C	14,600,000	11,300,000
	GWANGYEONGDIAENEM	14,500,000	13,070,000
	BIZ FORE CO., LTD.	14,500,000	3,020,000
	CHEONGDO INDUSTRIAL DEVELOPMENT	14,300,000	11,016,000
	DREAM LAND 2ND	14,300,000	3,000,000
	YEONAN CONSTRUCTION INDUSTRY	14,000,000	14,000,000
	Wing Bridge I & D	14,000,000	1,619,000
	JLK HOLDINGS CO., LTD.	13,500,000	5,400,000
	Mastern No.17 Myeongdong PFV Co., Ltd.	13,000,000	7,900,000
	STOBA C & D	13,000,000	6,600,000
	LH DEVELOPMENT	13,000,000	11,500,000

39. Guarantees and commitments (cont'd)

	Opponent	December 31, 2017	
		Maximum limit	Balance
Limit loan	Em Tower	₩ 12,700,000	₩ 12,700,000
	ILOSAM CITY DEVELOPMENT	12,667,000	11,267,000
	BIFC HOTEL	12,500,000	2,500,000
	BIFC HOTEL PROJECT CO., LTD	12,500,000	2,500,000
	BIZ FORE GASAN	12,300,000	11,700,000
	Dain Industrial Development	12,000,000	6,800,000
	We Are Master	12,000,000	12,000,000
	INOBUILD CO., LTD.	11,775,000	10,000,000
	EVERA	11,700,000	10,780,000
	INSTAR D & C	11,700,000	8,525,000
	Deokwon Co., Ltd.	11,500,000	6,050,000
	SEUNGU VF CO., LTD.	11,000,000	6,798,000
	TJ OTIS CO., LTD.	10,000,000	5,748,741
	IGIS Professional Private Real Estate Investment Trust 149	10,000,000	4,400,000
	JNG	10,000,000	10,000,000
	WIBESEUTEUPYEONGDONG 1ST	10,000,000	7,900,000
	Aju Hotel Seokyo	10,000,000	3,216,041
	Hana Special Situation Specialty Investment Private Execution Trust 30	10,000,000	7,000,000
	EUREKA	10,000,000	10,000,000
	UB HOLDINGS CO., LTD.	10,000,000	1,970,000
	Golden DMC Corp.	10,000,000	2,642,000
	MOKDONGPIEPEUBEULEE	9,200,000	8,790,582
	UB HOLDINGS	9,000,000	4,780,000
	MISATE STEA 2ND	7,600,000	6,580,000
	MISATE STEA 1ST	7,600,000	6,580,000
	DUAM INDUSTRIAL	7,560,000	7,560,000
	MASTUN NO.22 SB 7 PFV CO., LTD.	7,300,000	100,000
	CHUN GANG DEVELOPMENT	7,200,000	7,200,000
	Dukwon	7,000,000	6,050,000
	HAEJIN ASSET LOAN	7,000,000	7,000,000
	BIZ FORE	7,000,000	3,280,000
	SEYEONG DREAM 1ST	6,000,000	1,418,000
	A PARK GLOBAL	6,000,000	6,000,000
	SEYEONG DREAM 2ND	6,000,000	1,418,000
	Cheongrahosugongwon Plaza	5,894,319	1,964,773
	SLV PFV	5,500,000	5,500,000
	IGIS Professional Private Real Estate Investment Trust 149	5,300,000	5,300,000
	People & Future	5,000,000	2,150,000
	Ilbeonji Building(Sang-Gul, Lee)	4,500,000	200,000
	MASTUN NO.22 SB 7 PFV	2,600,000	100,000

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

		December 31, 2017			
	Opponent	Maximum limit		Balance	
Limit loan	GASAN E & C	₩	2,000,000	₩	2,000,000
	Capstone Professional Private Real Estate Investment Trust 8th		1,800,000		1,800,000
	DIENKAELEE DEVELOPMENT		1,600,000		1,600,000
	B & M Asset Management		1,500,000		600,000
	BUY AND SELL DEVELOPMENT		1,100,000		700,000
	MASTUN NO.21 SB 9 PFV		400,000		200,000
			₩	2,806,136,319	₩
Loan confirmation etc.	LCT PFV		163,670,000		163,670,000
	Jinseong Housing		152,900,000		152,900,000
	MSA		140,000,000		140,000,000
	Seyoung KNI		98,900,000		98,900,000
	SAMJUNG		69,900,000		69,900,000
	Green Narae		66,000,000		66,000,000
	M SINGOK 1ST		61,200,000		61,200,000
	HD 5TH		55,400,000		55,400,000
	HAEKUM		45,750,000		45,750,000
	GACHANG LOGISTICS CENTER PFV		45,500,000		45,500,000
	UNJEONG CONSTRUCTION		44,300,000		44,300,000
	MKH 1ST		40,000,000		40,000,000
	Las Flores		36,217,000		36,217,000
	Samin Company		35,000,000		35,000,000
	SEHO DEVELOPMENT		34,637,000		34,637,000
	CHUNGDAM E & C		31,059,000		31,059,000
	U WORLD		25,800,000		25,800,000
	Haegeum Limited Company		23,250,000		23,250,000
	HILSEUWAELMISA		22,200,000		22,200,000
	ASUNG		20,000,000		20,000,000
	HAEUNDAE SG		18,179,000		18,179,000
	MR101 CO., LTD.		17,430,000		17,430,000
	Las Flores Co., Ltd.		16,721,000		16,721,000
	J & C Partners		15,000,000		15,000,000
	SMART SEONGBOK 2ND		15,000,000		15,000,000
	SMART SEONGBOK 1ST		15,000,000		15,000,000
	CHUNGDAM E & C CO., LTD.		14,900,000		14,900,000
	GOLDEN GRAND HOLDINGS		13,228,000		13,228,000
	Mudong 1st Area Housing Association		12,500,000		12,500,000
	Cheonkyung		11,500,000		11,500,000
	SEHO DEVELOPMENT CO., LTD.		11,412,500		11,412,500
	CM 101		9,140,000		9,140,000
	Triny M		9,000,000		9,000,000
Structured		2,000,000		2,000,000	
		₩	1,392,693,500	₩	1,392,693,500
		₩	4,825,029,819	₩	3,542,265,533

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

The Group's securities received as deposits held on behalf of clients as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017	December 31, 2016
Securities received as deposit:		
Consigner	₩ 17,705,120,398	₩ 12,948,098,272
Savers	4,163,214	4,063,541
Beneficiary	4,774,072,777	4,724,960,895
	<u>₩ 22,483,356,389</u>	<u>₩ 17,677,122,708</u>
Securities loaned:		
Stock	₩ 47,745,909	₩ 78,548,118
Securities borrowed:		
Stock	86,137,484	138,825,063
Government & local bonds	562,209,983	322,328,457
	<u>₩ 648,347,467</u>	<u>₩ 461,153,520</u>
Written-off loan	₩ 110,840,628	₩ 107,813,882
Endorsed bills	₩ -	₩ 135,000,000

**40. Related party disclosures**

Significant related parties for the year ended December 31, 2017 are as follows.

	Company
Parent company	Meritz Financial Group Inc.
Associates	Global one Private IPO Investment Trust #1 (*1)
	MPLUS Private Real Estate Investment Trust #4 (*1)
	Mountain Pureun Private Investment Trust (*1)
	Meritz Korea Private Investment Trust 1st (*1)
	Meritz Korea Private Investment Trust 2nd (*1)
	Meritz Korea Private Investment Trust 3rd (*1)
	Korea Asset Classic Private Investment Trust 2nd (*1)
	Kiwoom Milestone Europe Professional Private Real Estate InvestmentTrust4 (*1)
	Bestars Samo Property No.8 Investment Inc. (*1)
	Platform Partners active mezzanine private equity investment trust No.2 (*1)
	Airplane fund 5 (*1)
	Airplane fund 6 (*1)
	High Yield Plus Investment Trust 3 <sup>rd</sup> (*1)
	High Yield Plus Investment Trust 4 <sup>th</sup> (*1)
	East Spring High Yield 2nd (*1)
	Hana Special Situation Professional Private Real Estate Investment Trust 30th (*1)
	Meritz Professional Private Real Estate InvestmentTrust 8th (*1)
	Capstone Professional Private Real Estate Investment Trust 8th the first class(*1)
	Meritz Professional Private Real Estate InvestmentTrust 7th (*1)



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

	Company
Associates	Acuon Capital Co., Ltd. (*2) Asiageuroseuje1hosamo Investment Limited Partnership Yuamkopain wood Enterprise Financial Anjeongsomo Investment Limited PA
Other related parties (*3)	Meritz Fire & Marine Insurance Co., Ltd. Meritz Asset Management Co., Ltd. Meritz Financial Information Service Co., Ltd. Meritz Business Service Co., Ltd. Meritz Real Estate Asset Management Co., Ltd. Meritz DM Investment Trust on Special Asset 1st Mertiz Vietnam Security Investment Trust PT.MERITZ KORINDO INSURANCE Meritz Private Offering Property 6 <sup>th</sup> Meritz Korea smallcap Securities Investment trusts CI Meritz Korea Investment Trust on Bond Hyundai High-Yield Private Trust 11 <sup>th</sup> Meritz Korea smallcap Securities Investment trusts Meritz Global Healthcare High-Yield Trust on Securities 1 <sup>st</sup> (CI) Meritz Korea Private Investment Trust 1st Meritz Korea Private Investment Trust 2nd Meritz Korea Private Investment Trust 3rd Meritz Asia Frontier Private Investment Meritz China Security Investment CI Meritz China Security Investment C2 Meritz Korea Ingagement Investment C Meritz Global Healthcare Investment Trust on Securities 1st (C2) HR Davinch Private Investment Trust 1st Fides Jump-up Private Investment Trust 1st Suntree Private Investment Trust 1st JS Private Investment Trust 1st Consus High-Yield Separate Taxation Private Investment Trust on Securities 1st Tiger 0212 Private Investment Trust 1st Trinity Unicorn Private Investment Trust 1st Platform Partners Private Investment Trust 1st Yuriechi Smart Private Investment Trust 1st Kclavis Private Investment Trust 2nd Korea Asset Classic Private Investment Trust 2nd Vision Private Investment Trust 1st SMART SEONGBOK 1ST SMART SEONGBOK 2ND MJJ 1ST MJJ 2ND M SINGOK 1ST MKH 1ST Msquare Shihung 1st Co., Ltd.

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

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

(\*2) As the director designated by the Group is a member of the Board of Directors of the investee, it was reclassified from AFS financial asset to investments in associates.

(\*3) As a subsidiary of Meritz Financial Group Co., Ltd., it has a related party relationship with the consolidated subsidiary.

Significant transactions with related parties for the years ended December 31, 2017 and 2016 are summarized as follows (Korean won in thousands):

	Company	Year ended December 31, 2017		Year ended December 31, 2016	
		Income	Expense	Income	Expense
Parent company	Meritz Financial Group	₩ 4,443	₩ 13,289,572	₩ 5,147	₩ 8,496,841
Others	Meritz Fire & Marine insurance Co., Ltd.	1,800,262	15,227,965	2,771,534	10,773,184
	Meritz Asset Management	-	41,149	-	2,221
	Meritz Business Service Co., Ltd.	-	1,430,670	-	1,657,399
	Meritz Financial Information Service Co., Ltd.(before Ritz Partners)	-	51,784	-	23,480
	Meritz Real Estate Asset Management Co., Ltd.	55,440	-	52,920	-
	Msquare Shihung 1st Co., Ltd.	826,102	-	-	-
		<u>₩ 2,686,247</u>	<u>₩ 30,041,140</u>	<u>₩ 2,829,601</u>	<u>₩ 20,953,125</u>

Outstanding balances with related parties as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Company	Year ended December 31, 2017		Year ended December 31, 2016	
		Assets	Liabilities	Assets	Liabilities
Parent company	Meritz Financial Group	₩ 21,964	₩ 61,737,158	₩ 41,917	₩ 21,999,850
Others	Meritz Fire & Marine insurance Co., Ltd.	663,129	158,008,093	231,689	320,461,753
	Meritz Asset Management	-	-	-	-
	Meritz Business Service Co., Ltd.	-	1,439,077	-	1,784,733
	Meritz Financial Information Service Co., Ltd.(before Ritz Partners)	-	1,509,690	-	2,080,429
	Meritz Real Estate Asset Management Co., Ltd.	-	-	-	36,540
	Globalone Private IPO Investment Trust #1	293,419	-	205,852	-
	Acuon Capital	4,873,151	-	-	-
	Hana Special Situation Professional Private Real Estate Investment Trust 30th	41,091	-	-	-
		<u>₩ 5,892,754</u>	<u>₩ 222,694,018</u>	<u>₩ 479,458</u>	<u>₩ 346,363,305</u>

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

The balance of the agreements with the related parties as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Loan commitment with limit	₩ 7,000,000	₩ -
Mortgage loan commitment	131,200,000	-
	<u>₩ 138,200,000</u>	<u>₩ -</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, 2017	Year ended December 31, 2016
Short-term salary	₩ 35,405,624	₩ 27,819,741
Severance payment	1,656,546	835,078
	<u>₩ 37,062,170</u>	<u>₩ 28,654,819</u>

**41. Statements of cash flows**

Cash and cash equivalents in the statements of cash flows as at December 31, 2017 and 2016 are summarized as follows (Korean won in thousands):

	December 31, 2017	December 31, 2016
Cash	₩ -	₩ -
Cash equivalents	1,026,348,909	657,187,591
	<u>₩ 1,026,348,909</u>	<u>₩ 657,187,591</u>

Significant non-cash transactions for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Gain (loss) on valuation of available-for-sale financial assets	₩ 5,388,270	₩ 11,778,016
Actuarial valuation of the net defined benefit liabilities	516,245	(48,728)
Present value discount of other assets	297,497	92,281
Present value discount of withholdings	3,437,682	1,608,671
Initial recognition of provisions for restoration costs	46,152	372,701
Transferred between advanced payments and intangible assets	1,019,103	429,672
Transferred between available-for-sale financial assets and loans	344,967	344,967
Transferred between RCPS and common stock	8,499,591	2,272,944
Transferred between provision and allowance for possible loan losses	-	-
Transferred to the investments in associates due to the acquisition of significant influence	700,000	-
Transferred between investment property and tangible assets	(615,938)	(156,277)
Conversion as stocks of exchange bonds	1,285,211	-
Transferred to the investments in associates from redeemable convertible preferred stocks	66,397,511	-

**Meritz Securities Co., Ltd. and its subsidiaries**  
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**41. Statements of cash flows (cont'd)**

	Year ended December 31, 2017	Year ended December 31, 2016
Bad debts written off	₩ 14,264,824	₩ 59,189,741
Increase in redeemable equity of non-controlling shareholders	71,315	1,472,488
Increase in non-controlling interests	4,219,674	-
Increase in loss on foreign currency transactions	(718,852)	(13,381)
Increase(decrease) in equity method capital fluctuation	(99,852)	718,852
Separation of conversion rights from convertible redeemable preferred stock	(151,962)	(664,085)
Inclusion in deductible expenses of loss on merger	17,710,181	-
Removed internal transactions of auto lease	1,892,860	-
Acquisition of subsidiary shares by comprehensive stock exchange	450,180,482	-

Net cash flows from the acquisition of subsidiaries for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Total assets	₩ 3,929,880,426	₩ -
Total liabilities	(3,448,062,196)	-
Total purchase price paid in cash	-	-
Deduction: Cash from subsidiaries acquired	(504,126,800)	-
Net cash flow	₩ (504,126,800)	₩ -

Net cash flows from the disposal of subsidiaries for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
Proceed from disposal	₩ 11,962,958	₩ 120,000
Cash and cash equivalent in subsidiaries	(79,540,844)	(427,945)
Net cash flow	₩ (67,577,886)	₩ (307,945)

Changes in liabilities arising from financing activities are as follows (Korean won in thousands):

	January 1, 2017	Cash flow	Change in scope of consolidation	Combination of business	Non-cash flow change		December 31, 2017
					Changes of exchange rate	Amortization of discount on debentures	
Call money	₩ -	₩ 90,000,000	₩ -	₩ -	₩ -	₩ -	₩ 90,000,000
Borrowing from KSFC	625,000,000	(25,000,000)	-	-	-	-	600,000,000
Repurchase agreements sold	5,351,618,732	1,076,685,390	-	-	(513,850)	-	6,427,790,272
Other borrowings	1,606,490,141	506,319,718	(761,100,000)	475,000,000	-	-	1,826,709,859
Asset backed short-term bonds	1,111,500,000	403,000,000	(393,100,000)	-	-	-	1,121,400,000
Debentures	279,956,420	582,829,889	(1,798,000)	2,746,182,002	-	3,436,755	3,610,607,066
	₩ 8,974,565,293	₩ 2,633,834,997	₩ (1,155,998,000)	₩ 3,221,182,002	₩ (513,850)	₩ 3,436,755	₩ 13,676,507,197

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**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 Markets Act*.

Details of the financial information in relation to trust accounts as at December 31, 2017 are as follows (Korean won in thousands):

	Specific money trust	Property trust	Total
Cash and due from banks	₩ 1,062,774,303	₩ -	₩ 1,062,774,303
Negotiable instruments	503,986,820	200,001,065	703,987,885
Monetary claims	220,000,000	2,136,869,504	2,356,869,504
Other assets	11,989,791	-	11,989,791
	<u>₩ 1,798,750,914</u>	<u>₩ 2,336,870,569</u>	<u>₩ 4,135,621,483</u>
Other liabilities	22,467,419	-	22,467,419
Trust and the original	<u>1,776,283,495</u>	<u>2,336,870,569</u>	<u>4,113,154,064</u>
	<u>₩ 1,798,750,914</u>	<u>₩ 2,336,870,569</u>	<u>₩ 4,135,621,483</u>

Details of transactions with trust accounts as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017	December 31, 2016
Fees on trust accounts	₩ 3,378,711	₩ 3,116,893
Accrued fees on trust accounts	1,337,994	1,444,983

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

Classification of financial assets and liabilities as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017				
	Financial assets or liabilities held-for-trading	Financial assets or liabilities designated at fair value through profit or loss	Available-for-sale financial assets or liabilities	Amortized cost of a financial assets or liabilities	Total
Financial assets:					
Cash and due from banks	₩ -	₩ -	₩ -	₩ 1,403,474,941	₩ 1,403,474,941
Financial assets held-for-trading	9,287,574,095	-	-	-	9,287,574,095
Derivative assets	91,882,359	-	-	-	91,882,359
Financial assets designated at fair value through profit or loss	-	540,424,656	-	-	540,424,656
Available-for-sale financial assets	-	-	1,251,665,821	-	1,251,665,821
Loans	-	-	-	8,523,643,032	8,523,643,032
CMA	-	-	-	4,994,458	4,994,458
Lease	-	-	-	983,732,540	983,732,540
Other financial assets	-	-	-	615,739,563	615,739,563
	<u>₩ 9,379,456,454</u>	<u>₩ 540,424,656</u>	<u>₩ 1,251,665,821</u>	<u>₩ 11,531,584,534</u>	<u>₩ 22,703,131,465</u>
Financial liabilities:					
Deposits	-	-	-	3,231,933,356	3,231,933,356
Financial liabilities held-for-trading	1,790,814,840	-	-	-	1,790,814,840

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

	December 31, 2017				
	Financial assets or liabilities held-for-trading	Financial assets or liabilities designated at fair value through profit or loss	Available-for-sale financial assets or liabilities	Amortized cost of a financial assets or liabilities	Total
Derivative liabilities	₩ 62,340,613	₩ -	₩ -	₩ -	₩ 62,340,613
Financial liabilities designated at fair value through profit or loss	-	447,145,121	-	-	447,145,121
Borrowings	-	-	-	8,944,500,131	8,944,500,131
Bonds	-	-	-	4,732,007,066	4,732,007,066
Other financial liabilities	-	-	-	702,253,843	702,253,843
	<u>₩ 1,853,155,453</u>	<u>₩ 447,145,121</u>	<u>₩ -</u>	<u>₩ 17,610,694,396</u>	<u>₩ 19,910,994,970</u>
	December 31, 2016				
	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	₩ -	₩ -	₩ -	₩ 816,956,145	₩ 816,956,145
Financial assets held-for-trading	7,468,895,113	-	-	-	7,468,895,113
Derivative assets	157,372,714	-	-	-	157,372,714
Financial assets designated at fair value through profit or loss	-	425,026,918	-	-	425,026,918
Available-for-sale financial assets	-	-	1,574,562,095	-	1,574,562,095
Loans	-	-	-	5,477,539,160	5,477,539,160
CMA	-	-	-	28,009,548	28,009,548
Lease	-	-	-	260,006,034	260,006,034
Other financial assets	-	-	-	486,515,402	486,515,402
	<u>₩ 7,626,267,827</u>	<u>₩ 425,026,918</u>	<u>₩ 1,574,562,095</u>	<u>₩ 7,069,026,289</u>	<u>₩ 16,694,883,129</u>
Financial liabilities:					
Deposits	-	-	-	3,102,818,820	3,102,818,820
Financial liabilities held-for-trading	1,868,617,761	-	-	-	1,868,617,761
Derivative liabilities	103,156,500	-	-	-	103,156,500
Financial liabilities designated at fair value through profit or loss	-	654,429,685	-	-	654,429,685
Borrowings	-	-	-	8,694,608,873	8,694,608,873
Bonds	-	-	-	279,956,420	279,956,420
Other financial liabilities	-	-	-	462,861,638	462,861,638
	<u>₩ 1,971,774,261</u>	<u>₩ 654,429,685</u>	<u>₩ -</u>	<u>₩ 12,540,245,751</u>	<u>₩ 15,166,449,697</u>

**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:

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

	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 no observable market data, fair value of the assets or liabilities is classified as Level 3. The assets of liabilities classified as Level 3 include unlisted stock, option related over-the-counter securities, DLS, separate deposit from investors, etc.

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

Details of the carrying amount and fair value of financial instruments as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

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



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

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

(\*2) Because there was no posted price of the same financial product in an active market or fair value could not be reliably estimated, the balance of financial instruments measured at cost is ₩23,136,298 thousand (excluding joint compensation fund for loss incurred from contravention of contracts). Of the financial instruments measured at cost for the year ended December 31, 2017, ₩26,149,423 thousand of book value was eliminated, and in regard to the elimination, ₩1,908,457 thousand was recognized as a gain or loss on disposal.

	December 31, 2016			
	Fair value			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets held-for-trading:				
Equity securities	₩ 241,090,398	₩ -	₩ -	₩ 241,090,398
Debt securities	-	7,039,777,757	-	7,039,777,757
Others	188,026,959	-	-	188,026,959
Derivative assets	9,953,821	123,455,053	23,963,840	157,372,714
Financial assets designated at fair value through profit or loss				
	-	144,498,917	280,528,001	425,026,918
Available-for-sale financial assets:				
Equity securities	5,843,940	-	238,645,625	244,489,565
Debt securities	-	1,223,771,001	-	1,223,771,001
Others	-	-	106,301,531	106,301,531
	<u>₩ 444,915,118</u>	<u>₩ 8,531,502,728</u>	<u>₩ 649,438,997</u>	<u>₩ 9,625,856,843</u>
Financial liabilities:				
Financial liabilities held-for-trading:				
Equity securities	190,198,715	-	-	190,198,715
Debt securities	-	1,677,590,111	-	1,677,590,111
Others	828,935	-	-	828,935
Derivative liabilities	2,659,166	88,164,497	12,332,836	103,156,499
Financial liabilities designated at fair value through profit or loss				
	-	-	654,429,685	654,429,685
	<u>₩ 193,686,816</u>	<u>₩ 1,765,754,608</u>	<u>₩ 666,762,521</u>	<u>₩ 2,626,203,945</u>

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

(\*2) Because there was no posted price of the same financial product in an active market or fair value could not be reliably estimated, the balance of financial instruments measured at cost is ₩27,803,668 thousand (excluding joint compensation fund for loss incurred from contravention of contracts). Of the financial instruments measured at cost for the year ended December 31, 2016, ₩7,515,429 thousand of book value was eliminated, and in regard to the elimination, ₩1,482,109 thousand was recognized as a gain or loss on disposal.

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

Details of inputs used in fair value, valuation technique, and measurement of fair value classified into level 2 among financial assets and liabilities, currently measured at fair value as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016	Valuation technique	Inputs
<b>Financial assets:</b>				
<b>Financial assets held-for-trading:</b>				
Debt securities	₩ 8,535,157,127	₩ 7,039,777,757	DCF model	Discount rate, interest rate
Derivative assets	52,963,012	123,455,053	DCF model, etc	Discount rate, exchange rate
Financial assets designated at fair value through profit or loss	167,700,063	144,498,917	DCF model, etc	Discount rate, interest rate
<b>Available-for-sale financial assets:</b>				
Debt securities	879,985,684	1,223,771,001	DCF model	Discount rate, interest rate
	<u>₩ 9,635,805,886</u>	<u>₩ 8,531,502,728</u>		
<b>Financial liabilities:</b>				
<b>Financial liabilities held-for-trading:</b>				
Debt securities	1,493,232,766	1,677,590,111	DCF model	Discount rate, interest rate
Derivative liabilities	39,308,366	88,164,497	DCF model	Discount rate, exchange rate
	<u>₩ 1,532,541,132</u>	<u>₩ 1,765,754,608</u>		

Changes in the fair value of level 3 financial assets and liabilities for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017							December 31, 2017
	January 1,2017	Profit/Loss	Other comprehen sive income	Move between levels (*1)	Increase due to business combination (*2)	Purchase/ issuance	Disposal/ redemption	
<b>Assets:</b>								
<b>Financial assets held-for-trading:</b>								
Derivative instruments	₩ 23,963,840	₩ 1,465,699	₩ -	₩ -	₩ -	₩ 6,224,777	₩ (18,650,629)	₩ 13,003,687
Financial assets designated at fair value through profit or loss	280,528,001	5,432,568	-	-	-	11,470,325,681	(11,383,561,658)	372,724,592
<b>Available-for-sale financial assets:</b>								
Equity instrument	238,645,625	1,934,822	1,335,321	(4,333,266)	-	46,061,838	(40,280,806)	243,363,534
Others	106,301,531	(4,668,150)	12,633,919	-	18,210,741	284,397,847	(291,247,124)	125,628,764
	<u>₩ 649,438,997</u>	<u>₩ 4,164,939</u>	<u>₩ 13,969,240</u>	<u>₩ (4,333,266)</u>	<u>₩ 18,210,741</u>	<u>₩ 11,807,010,143</u>	<u>₩ (11,733,740,217)</u>	<u>₩ 754,720,577</u>
<b>Liabilities:</b>								
<b>Financial liabilities held-for-trading</b>								
Derivative instruments	12,332,836	(19,374,045)	-	-	-	437,555	(11,751,921)	20,392,515
Financial liabilities designated at fair value through profit or loss	654,429,685	(6,688,310)	-	-	-	925,979,223	(1,139,952,097)	447,145,121
	<u>₩ 666,762,521</u>	<u>₩ (26,062,355)</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 926,416,778</u>	<u>₩ (1,151,704,018)</u>	<u>₩ 467,537,636</u>

(\*1) There was no transfer to level 3 in 2017. Because an unlisted company went public in 2017, the amount of ₩5,046,159 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.

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

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

	Year ended December 31, 2016						
	January 1, 2016	Profit/Loss	Other comprehensive income	Move between levels (*)	Purchase/ issuance	Disposal/ redemption	December 31, 2016
<b>Assets:</b>							
Financial assets held-for-trading:							
Derivative instruments	₩ 12,204,059	₩ 6,022,615	₩ -	₩ -	₩ 12,965,213	₩ (7,228,047)	₩ 23,963,840
Financial assets designated at fair value through profit or loss	300,710,213	5,479,948	-	-	7,904,112,689	(7,929,774,849)	280,528,001
Available-for-sale financial assets:							
Equity instrument	200,156,068	3,152,981	11,234,177	(5,046,159)	43,833,353	(14,684,795)	238,645,625
Others	90,972,795	5,023,975	(7,660,449)	-	565,558,480	(547,593,270)	106,301,531
	<u>₩ 604,043,135</u>	<u>₩ 19,679,519</u>	<u>₩ 3,573,728</u>	<u>₩ (5,046,159)</u>	<u>₩ 8,526,469,735</u>	<u>₩ (8,499,280,961)</u>	<u>₩ 649,438,997</u>
<b>Liabilities:</b>							
Financial liabilities held-for-trading:							
Derivative instruments	4,773,675	768,575	-	-	18,308,292	(9,980,556)	12,332,836
Financial liabilities designated at fair value through profit or loss	490,792,826	(14,257,340)	-	-	1,101,682,827	(952,303,308)	654,429,685
	<u>₩ 495,566,501</u>	<u>₩ (13,488,765)</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 1,119,991,119</u>	<u>₩ (962,283,864)</u>	<u>₩ 666,762,521</u>

(\* ) There was no transfer to level 3 and from level 3 to level 1 in 2016. The Group recognizes a transfer at the end of the reporting period when an event or circumstance causing the transfer among fair value levels is incurred.

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 2017 and 2016 were recognized as follows (Korean won in thousands):

	December 31, 2017		December 31, 2016	
	Profit and loss for the current term	Gain and loss on valuation	Profit and loss for the current term	Gain and loss on valuation
<b>Assets:</b>				
Financial assets held-for-trading:				
Derivative instruments	₩ 1,465,699	₩ 3,533,189	₩ 6,022,615	₩ 8,638,965
Financial assets designated at fair value through profit or loss	5,432,568	1,227,515	5,479,948	1,650,136
Available-for-sale financial assets:				
Equity instruments	1,934,822	(1,190,750)	3,152,981	(344,967)
Others	(4,668,150)	(6,297,613)	5,023,975	(293)
	<u>4,164,939</u>	<u>(2,727,659)</u>	<u>19,679,519</u>	<u>9,943,841</u>
<b>Liabilities:</b>				
Financial liabilities held-for-trading:				
Derivative instruments	(19,374,045)	(18,848,049)	768,575	1,748,711
Financial liabilities designated at fair value through profit or loss	(6,688,310)	(918,747)	(14,257,340)	(8,087,588)
	<u>(26,062,355)</u>	<u>(19,766,796)</u>	<u>(13,488,765)</u>	<u>(6,338,877)</u>
	<u>₩ (21,897,416)</u>	<u>₩ (22,494,455)</u>	<u>₩ 6,190,754</u>	<u>₩ 3,604,964</u>

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**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, 2017 are as follows (Korean won in thousands):

	December 31, 2017					
	Fair value	Valuation technique	Inputs	Significant unobservable inputs	Range	Sensitivity of the input to fair value
Financial assets:						
Financial assets held for-trading	₩ 13,003,687	FDM, Binomial model, Black Scholes model, Monte-Carlo Simulation	Risk free rate, dividend rate, discount rate, volatility,	Recovery rate Volatility	0% ~ 100% 9.65% ~ 50.00%	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	372,724,593	Reduced Form Model Monte-Carlo Simulation, Cox, Ross and Rubinstein Model	probability default Risk free rate, dividend rate, discount rate, stock price	Volatility Correlation	18.18% ~ 29.90% 0.07 ~ 0.1399	Fair value decreased due to the increase in volatility Fair value decreased due to the increase in correlation
Available-for-sale financial assets	368,992,297	DCF, Past deal method, Cost method	-	Growth rate Discount rate	0% ~ 1% 8.31% ~ 16.38%	Fair value increased due to the increase in growth rate Fair value decreased due to the increase in discount rate
	<u>₩ 754,720,577</u>					
Financial liabilities:						
Financial liabilities held-for-trading	20,392,515	Binomial model Monte-Carlo Simulation, Hull&White 1 factor	Risk free rate, dividend rate, discount rate, stock price	Volatility	1.35% ~ 50.00% 0.01 ~ 0.5498	Fair value decreased due to the increase in volatility
Financial liabilities designated at fair value through profit or loss	447,145,121	Monte-Carlo Simulation, Reduced form, Hull&White 1 factor Black-Scholes Model	Risk free rate, dividend rate, discount rate, probability default	Recovery rate Volatility Correlation	0% ~ 100% 11.98% ~ 41.21% 0.27 ~ 0.9472	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>₩ 467,537,636</u>					

**Meritz Securities Co., Ltd. and its subsidiaries**  
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**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 separately on favorable changes and unfavorable changes. If fair value is influenced by more than 2 input variables, the fair value is calculated on the basis of the most favorable or the most unfavorable amount. As at December 31, 2017, the result of sensitivity analysis according to changes in input variables by financial asset is as follows (Korean won in thousands):

	Computation effect of volatility	Favorable change	Unfavorable change
<b>Assets:</b>			
Financial assets held for-trading	Adjustment of 10% in unobservable inputs (volatility, recovery rate)	₩ 1,641,350	₩ (1,108,607)
Financial assets designated at fair value through profit or loss	Adjustment of 10% in unobservable inputs (volatility, recovery rate)	16,699	(17,830)
Available-for-sale financial assets	Adjustment 1% of growth rate, discount rate	10,155,775	(6,117,427)
		<u>11,813,824</u>	<u>(7,243,864)</u>
<b>Liabilities:</b>			
Derivative instruments	Adjustment of 10% in unobservable inputs (volatility, recovery rate)	3,726,044	(8,122,421)
Financial liabilities designated at fair value through profit or loss	Adjustment of 10% in unobservable inputs (volatility, recovery rate)	4,716,716	(4,902,994)
		<u>₩ 8,442,760</u>	<u>₩ (13,025,415)</u>
		<u>₩ 20,256,584</u>	<u>₩ (20,269,279)</u>

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 at December 31, 2017 and are as follows (Korean won in thousands):

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

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

	December 31, 2016				
	Book value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets:</b>					
Cash and due from banks (*)	₩ 816,956,145	₩ -	₩ 816,956,145	₩ -	₩ 816,956,145
Loans receivable	5,477,539,160	-	-	5,511,969,128	5,511,969,128
CMA (*)	28,009,548	-	-	28,009,548	28,009,548
Lease	260,006,034	-	-	269,207,468	269,207,468
Other financial assets (*)	486,515,402	-	-	486,515,402	486,515,402
	<u>₩ 7,069,026,289</u>	<u>₩ -</u>	<u>₩ 816,956,145</u>	<u>₩ 6,295,701,546</u>	<u>₩ 7,112,657,691</u>
<b>Financial liabilities:</b>					
Deposits (*)	₩ 3,102,818,820	₩ -	₩ 3,102,818,820	₩ -	₩ 3,102,818,820
Borrowings (*)	8,694,608,873	-	8,694,608,873	-	8,694,608,873
Bonds	279,956,420	-	291,508,242	-	291,508,242
Other financial liabilities (*)	462,861,638	-	-	462,861,638	462,861,638
	<u>₩ 12,540,245,751</u>	<u>₩ -</u>	<u>₩ 12,088,935,935</u>	<u>₩ 462,861,638</u>	<u>₩ 12,551,797,573</u>

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

The following valuation methods and input variables were applied to the financial assets classified as level 2 of the financial assets, which were not measured at fair value but of which the fair values were disclosed, in the statements of financial position as at December 31, 2017 and 2016 (Korean won in thousands).

	December 31, 2017	December 31, 2016	Valuation method	Input variables
<b>Financial liabilities:</b>				
Debentures	₩ 4,741,556,014	₩ 291,508,242	DCF method	Discount rate

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

	December 31, 2017	December 31, 2016	Valuation method	Input variable	Unobservable input variable
<b>Financial assets</b>					
Loans	₩ 8,654,689,610	₩ 5,511,969,128	DCF method	Discount rate	Credit risk
Lease assets	1,016,205,319	269,207,468	DCF method	Discount rate	Credit risk
	<u>₩ 9,670,894,929</u>	<u>₩ 5,781,176,596</u>			





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

Changes in deferred day 1 profit or loss, for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	Year ended December 31, 2017		Year ended December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Beginning	₩ 1,899,177	₩ 402,892	₩ (693,715)	₩ (21,685)
Increase	1,609,586	916,985	2,466,790	429,894
Decrease	(4,193,989)	(410,018)	126,102	(5,317)
Ending	₩ (685,226)	₩ 909,859	₩ 1,899,177	₩ 402,892

#### 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.

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.

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

### **Credit risk management**

#### **Loans**

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

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

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

#### **Debt securities**

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

### **Risk reduction policy**

#### **Collateral**

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

#### **Derivatives**

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

#### **Master netting arrangement**

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

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

**Maximum exposure to credit risk**

The maximum exposure to credit risk as at December 31, 2017 and 2016 are as follows. The Group does not consider risk reduction obtained by collaterals or other. Equity securities in the trading financial assets and available-for-sale financial assets are excluded. (Korean won in thousands):

	December 31, 2017		December 31, 2016	
On balance accounts:				
Cash and due from banks	₩	1,403,474,941	₩	816,956,144
Financial assets held-for-trading		8,535,157,127		7,039,777,757
Derivative instruments		54,455,108		128,206,238
Financial assets designated at fair value through profit or loss		168,196,030		149,044,902
Available-for-sale financial assets		879,985,684		1,223,771,001
Loans		8,652,629,491		5,560,775,858
CMA management assets		5,000,000		28,100,000
Lease assets		994,387,160		264,854,951
Other financial assets		621,056,791		490,370,676
	₩	<u>21,314,342,332</u>	₩	<u>15,701,857,527</u>
Off balance accounts(*)				
Commitments on loans	₩	2,745,266,530	₩	2,293,007,563
ABCP Purchase agreement		616,800,000		294,370,000
	₩	<u>3,362,066,530</u>	₩	<u>2,587,377,563</u>

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

Impaired or neither past due nor impaired loans among loans, cash management account assets, finance lease assets and other financial assets as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Loans:				
Call loans	₩ 141,126	₩ -	₩ -	₩ 141,126
Repurchase agreement	901,500,000	-	-	901,500,000
Granting of credit	896,111,629	-	-	896,111,629
Loans to employees	2,999,017	-	68,673	3,067,690
Loans	6,364,196,789	69,199,166	108,190,303	6,541,586,258
Short-term note trading	21,000,000	-	-	21,000,000
Loans purchased	198,133,141	-	-	198,133,141
Privately-placed bonds	87,428,754	-	-	87,428,754
Advance for customers	-	-	3,660,893	3,660,893
Allowance for possible loan losses	(54,957,117)	(9,539,912)	(60,513,931)	(125,010,960)
	<u>8,416,553,339</u>	<u>59,659,254</u>	<u>51,405,938</u>	<u>8,527,618,531</u>
CMA management assets:				
Notes discounted	5,000,000	-	-	5,000,000
Allowance for possible loan losses	(5,542)	-	-	(5,542)
	<u>4,994,458</u>	<u>-</u>	<u>-</u>	<u>4,994,458</u>

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

	December 31, 2017			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Lease assets:				
Financial lease receivables	970,574,381	16,489,857	7,322,922	994,387,160
Allowance for possible loan losses	(4,241,317)	(964,467)	(5,448,836)	(10,654,620)
	966,333,064	15,525,390	1,874,086	983,732,540
Other financial assets (*):				
Other financial assets	615,625,541	1,125,240	4,306,010	621,056,791
Allowance for possible loan losses	(498,927)	(183,199)	(4,138,575)	(4,820,701)
	615,126,614	942,041	167,435	616,236,090
	₩ 10,003,007,475	₩ 76,126,685	₩ 53,447,459	₩ 10,132,581,619
	December 31, 2016			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Loans:				
Call loans	₩ 60	₩ -	₩ -	₩ 60
Repurchase agreement	745,000,000	-	-	745,000,000
Granting of credit	605,566,566	96,841	-	605,663,407
Loans to employees	2,875,974	-	68,673	2,944,647
Loans	3,744,716,533	3,211,509	96,019,974	3,843,948,016
Short-term note trading	72,300,000	-	-	72,300,000
Loans purchased	118,170,349	-	52,364,954	170,535,303
Privately-placed bonds	114,326,636	-	1,658,000	115,984,636
Advance for customers	33,793	-	4,365,996	4,399,789
Allowance for possible loan losses	(22,323,657)	(53,612)	(46,731,814)	(69,109,083)
	5,380,666,254	3,254,738	107,745,783	5,491,666,775
CMA management assets:				
Notes discounted	28,100,000	-	-	28,100,000
Allowance for possible loan losses	(90,452)	-	-	(90,452)
	28,009,548	-	-	28,009,548
Lease assets:				
Financial lease receivables	241,253,435	19,601,256	4,000,260	264,854,951
Allowance for possible loan losses	(2,331,053)	(205,827)	(2,312,037)	(4,848,917)
	238,922,382	19,395,429	1,688,223	260,006,034
Other financial assets (*):				
Other financial assets	486,828,921	-	3,541,755	490,370,676
Allowance for possible loan losses	(125,275)	-	(3,428,250)	(3,553,525)
	486,703,646	-	113,505	486,817,151
	₩ 6,134,301,830	₩ 22,650,167	₩ 109,547,511	₩ 6,266,499,508

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

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

Loans that are past due but not impaired as at December 31, 2017 and 2016 consist of the following (Korean won in thousands):

	December 31, 2017	December 31, 2016
Less than 30 days	₩ 60,355,142	₩ 19,888,412
30 to 60 days	18,515,280	2,030,460
60 to 90 days	7,943,841	990,735

**Impaired loans**

The details of impaired loans as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017		December 31, 2016	
	Loans	Allowance for possible loan losses	Loans	Allowance for possible loan losses
Loans:				
Loans to employees	₩ 68,673	₩ 68,673	₩ 68,673	₩ 68,673
Loans	108,190,303	56,784,365	96,019,974	33,280,815
Loans purchased	-	-	52,364,954	7,358,330
Privately-placed bonds	3,660,893	3,660,893	1,658,000	1,658,000
Advance for customers	-	-	4,365,996	4,365,996
	111,919,869	60,513,931	154,477,597	46,731,814
Lease assets	7,322,922	5,448,836	4,000,260	2,312,037
Other financial assets:				
Receivables from trading on consignment	503,345	503,345	628,672	628,672
Other receivables	3,397,064	3,232,310	2,329,541	2,216,036
Accrued income	405,601	402,920	583,542	583,542
	4,306,010	4,138,575	3,541,755	3,428,250
	₩ 123,548,801	₩ 70,101,342	₩ 162,019,612	₩ 52,472,101

Details on the classification of total loans receivable as at December 31, 2017 and 2016 consist of the following (Korean won in thousands):

	December 31, 2017						Allowance for possible loan losses
	Amount	Classification				Estimated loss	
		Normal	Pre-cautionary	Substandard	Doubtful		
Loans:							
Call loans	₩ 141,126	₩ 141,126	₩ -	₩ -	₩ -	₩ -	₩ -
Repurchase agreements	901,500,000	901,500,000	-	-	-	-	-
Broker's loan	896,111,629	896,111,629	-	-	-	-	-
Loans to employees	3,067,690	2,999,017	-	-	-	68,673	68,673
Loans	6,541,586,258	6,352,454,478	70,239,672	71,518,032	17,697,633	29,676,443	119,128,023
Notes discounted	21,000,000	21,000,000	-	-	-	-	88,314
Loans purchased	198,133,141	198,133,141	-	-	-	-	1,462,814
Privately-placed bonds	87,428,754	86,018,754	1,410,000	-	-	-	602,243
Advance for customers	3,660,893	-	-	-	-	3,660,893	3,660,893
	8,652,629,491	8,458,358,145	71,649,672	71,518,032	17,697,633	33,406,009	125,010,960
CMA management assets:							
CMA short-term note trading	5,000,000	5,000,000	-	-	-	-	5,542
Lease assets:							
Financial lease receivables	994,387,160	968,841,806	15,696,076	4,187,143	1,670,295	3,991,840	10,654,620
Other financial assets:							
Accounts receivable	495,732,835	492,402,074	731,751	-	454,020	2,144,990	3,244,708
Receivable spot exchange	32,166,600	32,166,600	-	-	-	-	-
Accrued income	77,954,575	76,632,956	918,713	-	-	402,906	912,083
Others	15,202,781	14,457,843	5,822	-	111,029	628,087	663,910
	621,056,791	615,659,473	1,656,286	-	565,049	3,175,983	4,820,701
	₩ 10,273,073,442	₩ 10,047,859,424	₩ 89,002,034	₩ 75,705,175	₩ 19,932,977	₩ 40,573,832	₩ 140,491,823

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

	December 31, 2016							Allowance for possible loan losses
	Amount	Classification					Estimated loss	
		Normal	Pre-cautionary	Substandard	Doubtful			
Loans:								
Call loans	₩ 60	₩ 60	₩ -	₩ -	₩ -	₩ -	₩ -	
Repurchase agreements	745,000,000	745,000,000	-	-	-	-	-	
Broker's loan	605,663,407	605,663,407	-	-	-	-	-	
Loans to employees	2,944,647	2,875,974	-	-	-	68,673	68,673	
Loans	3,843,948,016	3,746,812,308	16,115,734	54,424,128	6,924,440	19,671,406	56,417,674	
Notes discounted	72,300,000	72,300,000	-	-	-	-	276,393	
Loans purchased	170,535,303	118,170,350	-	47,827,719	-	4,537,234	7,513,521	
Privately-placed bonds	115,984,636	115,984,636	-	-	-	-	466,826	
Advance for customers	4,399,789	33,793	-	-	-	4,365,996	4,365,996	
	5,560,775,858	5,406,840,528	16,115,734	102,251,847	6,924,440	28,643,309	69,109,083	
CMA management assets:								
CMA Short-term note trading	28,100,000	28,100,000	-	-	-	-	90,452	
Lease assets:								
Financial lease receivables	264,854,951	259,560,368	1,294,323	1,886,729	-	2,113,531	4,848,917	
Other financial assets:								
Accounts receivable	354,904,457	348,287,491	3,658,753	-	454,020	2,504,193	2,969,983	
Receivable spot exchange	46,659,606	46,659,606	-	-	-	-	-	
Accrued income	80,870,283	80,286,741	-	-	-	583,542	583,542	
Others	7,936,330	7,936,330	-	-	-	-	-	
	490,370,676	483,170,168	3,658,753	-	454,020	3,087,735	3,553,525	
	₩ 6,344,101,485	₩ 6,177,671,064	₩ 21,068,810	₩ 104,138,576	₩ 7,378,460	₩ 33,844,575	₩ 77,601,977	

Details of the credit soundness of due from banks and debt securities as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	December 31, 2017			December 31, 2016		
	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	₩ 3,894,146,343	₩ -	₩ 149,861,782	₩ 4,505,173,022	₩ -	₩ 789,926,488
AAA	3,994,337,062	-	-	1,830,722,534	-	10,053,273
AA- to AA+	226,084,473	156,669,843	31,151,639	190,712,347	144,527,532	61,143,560
A- to A+	112,932,888	-	43,272,324	49,381,525	-	22,354,810
Less A-	183,518,377	2,446,028	58,524,324	144,355,050	-	40,640,176
Unrated	2,880,715	8,584,192	375,867,655	-	-	114,069,414
	8,413,899,858	167,700,063	658,677,724	6,720,344,478	144,527,532	1,038,187,721
CP:						
A1	85,128,844	-	-	226,648,278	-	-
A2 to A3	36,128,425	-	171,069,177	92,785,001	-	185,126,297
Less B	-	-	50,238,783	-	-	456,983
	121,257,269	-	221,307,960	319,433,279	-	185,583,280
	₩ 8,535,157,127	₩ 167,700,063	₩ 879,985,684	₩ 7,039,777,757	₩ 144,527,532	₩ 1,223,771,001

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

Details of industrial credit exposure classified by Korean Standard Industrial Classification as at December 31, 2017 and 2016 consist of the following (Korean won in thousands):

	December 31, 2017					
	Finance and insurance	Manufacturing	Wholesale and retailing	Construction	Others	Total
Cash and due from banks	₩ 1,403,474,941	₩ -	₩ -	₩ -	₩ -	₩ 1,403,474,941
Financial assets held-for-trading (*)	4,093,184,483	61,389,242	-	14,152,900	4,366,430,502	8,535,157,127
Derivative instrument assets (*)	54,455,108	-	-	-	-	54,455,108
Financial assets designated at fair value through profit or loss (*)	32,875,489	4,974,595	-	-	130,345,946	168,196,030
Available-for-sale financial assets (*)	548,585,845	157,620,354	-	9,196,964	164,582,521	879,985,684
Loans	2,432,091,306	294,370,179	82,811,210	926,732,912	4,916,623,884	8,652,629,491
CMA	5,000,000	-	-	-	-	5,000,000
Lease assets	67,244,617	62,236,557	103,547,362	34,945,220	726,413,404	994,387,160
Other financial assets	227,962,633	-	-	-	393,094,158	621,056,791
	₩ 8,864,874,422	₩ 580,590,927	₩ 186,358,572	₩ 985,027,996	₩ 10,697,490,415	₩ 21,314,342,332

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

	December 31, 2016						Total
	Finance and insurance	Manufacturing	Wholesale and retailing	Construction	Others		
Cash and due from banks	₩ 816,956,144	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 816,956,144
Financial assets held-for-trading (*)	2,142,194,452	882,926	-	1,300,944	4,895,399,435	-	7,039,777,757
Derivative instrument assets (*)	128,206,238	-	-	-	-	-	128,206,238
Financial assets designated at fair value through profit or loss (*)	4,517,369	10,005,250	-	-	134,522,283	-	149,044,902
Available-for-sale financial assets (*)	365,830,484	31,165,474	-	8,679,569	818,095,474	-	1,223,771,001
Loans	1,356,461,628	74,004,977	44,682,848	819,594,164	3,266,032,241	-	5,560,775,858
CMA	25,000,000	-	-	-	3,100,000	-	28,100,000
Lease assets	33,021,499	37,598,710	29,317,004	10,488,775	154,428,963	-	264,854,951
Other financial assets	287,778,685	-	-	-	202,591,991	-	490,370,676
	<u>₩ 5,159,966,499</u>	<u>₩ 153,657,337</u>	<u>₩ 73,999,852</u>	<u>₩ 840,063,452</u>	<u>₩ 9,474,170,387</u>	<u>₩ -</u>	<u>₩ 15,701,857,527</u>

(\*) The Group excluded financial assets below, since they had no significant credit risk.

- Financial assets held-for-trading: Stocks and collective investment securities
- Financial assets designated at fair value through profit and loss: Reserve for claims of customers' deposits (trust)
- Financial assets available-for-sale: Stocks, collective investment securities, foreign currency securities and others
- Derivative financial assets: Options purchased of stock

**Liquidity risk**

**Procedures of the liquidity risk management**

The Group defines liquidity risk as the possibility of incurring losses due to a temporary shortage in funds caused by a maturity mismatch or an unexpected capital outlay. Liquidity risk soars when funding rates rise, or assets are sold below a normal price, or a good investment opportunity is missed. The purpose to manage liquidity risk is to early identify the potential risk factors upon raising and operating the Group's funds and to obtain a stable revenue base maintaining an appropriate level of the Group's liquidity by systematically managing the risk.

The targets of liquidity risk management are all assets and liabilities outstanding in the Group's statements of financial position.

The Group's principles of the liquidity risk management are as follows:

- Set up and comply with tolerable limits to liquidity risk.
- Prepare insufficient liquidity by forecasting cash requirements regularly.
- Establish an emergency plan against a liquidity crisis to prepare for an unexpected liquidity risk.
- Evaluate and manage the effect of a large amount of money that is loaned out, invested, or procured on liquidity risks.



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

The residual maturity of non-derivative financial instruments as at December 31, 2017 and 2016 consists of the following (Korean won in thousands):

	December 31, 2017						Total
	Within 1 week	After 1 week ~ but no later than 1 month	After 1 month~ but no later than 3 months	After 3 months~ but no later than 6 months	After 6 months~ but no later than 1 year	After 1 year	
<b>Assets:</b>							
Cash and due from banks	₩ 1,340,543,128	₩ 8,317,805	₩ 31,222,471	₩ 4,100,000	₩ 2,500,000	₩ 16,791,537	₩ 1,403,474,941
Financial assets held-for-trading	6,129,815,266	836,212,598	24,817,090	55,259,681	116,057,120	1,372,995,372	8,535,157,127
Financial assets designated at fair value through profit or loss	53,962,228	-	-	-	-	114,233,802	168,196,030
Available-for-sale financial assets (*1)	159,915,126	186,072,583	193,074,530	440,138	54,692,081	285,791,226	879,985,684
Loans (*2)	992,370,996	511,947,550	1,507,884,406	881,720,121	1,239,250,101	3,519,456,317	8,652,629,491
CMA	5,000,000	-	-	-	-	-	5,000,000
Lease assets	6,118,675	24,358,326	62,734,123	92,445,697	172,539,908	636,190,431	994,387,160
Other financial assets (*3)	483,001,310	-	88,060,259	1,048,230	14,544,371	34,402,621	621,056,791
	₩ 9,170,726,729	₩ 1,566,908,862	₩ 1,907,792,879	₩ 1,035,013,867	₩ 1,599,583,581	₩ 5,979,861,306	₩ 21,259,887,224
<b>Liabilities:</b>							
Deposits (*3)	₩ 744,854,597	₩ 36,989,459	₩ 108,427,837	₩ 174,233,673	₩ 2,037,271,613	₩ 143,999,558	₩ 3,245,776,737
Financial liabilities held-for-trading	-	2,097,522	184,149,685	37,789,355	1,353,024,296	213,753,982	1,790,814,840
Financial liabilities designated at fair value through profit or loss	-	70,742,364	93,287,309	86,299,273	70,913,279	126,533,641	447,775,866
Borrowings	5,083,830,390	1,383,448,287	523,500,000	322,509,859	383,700,000	1,247,511,595	8,944,500,131
Debentures	100,000,000	434,800,000	1,026,600,000	400,000,000	648,000,000	2,128,575,540	4,737,975,540
Other financial liabilities	316,346,708	4,415,633	160,380,956	-	127,101,809	94,008,737	702,253,843
	₩ 6,245,031,695	₩ 1,932,493,265	₩ 2,096,345,787	₩ 1,020,832,160	₩ 4,620,010,997	₩ 3,954,383,053	₩ 19,869,096,957

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

	December 31, 2016						Total
	Within 1 week	After 1 week ~ but no later than 1 month	After 1 month ~ but no later than 3 months	After 3 months ~ but no later than 6 months	After 6 months ~ but no later than 1 year	After 1 year	
<b>Assets:</b>							
Cash and due from banks	₩ 757,204,065	₩ 99,571	₩ 56,089,000	₩ -	₩ 848,271	₩ 2,715,237	₩ 816,956,144
Financial assets held-for-trading	4,880,594,252	455,582,323	57,353,520	99,800,030	162,171,821	1,384,275,811	7,039,777,757
Financial assets designated at fair value through profit or loss	49,089,827	-	-	-	-	99,955,075	149,044,902
Available-for-sale financial assets (*1)	807,927,467	148,016,594	10,704,175	45,034,883	228,492	211,859,390	1,223,771,001
Loans (*2)	771,609,483	198,062,370	998,760,423	360,334,129	1,133,552,709	2,098,456,744	5,560,775,858
CMA	-	3,100,000	15,000,000	-	10,000,000	-	28,100,000
Lease assets	1,778,759	11,401,574	26,271,131	36,628,264	64,936,053	123,839,170	264,854,951
Other financial assets (*3)	407,423,776	-	47,294,677	861,376	3,441,778	31,349,069	490,370,676
	₩ 7,675,627,629	₩ 816,262,432	₩ 1,211,472,926	₩ 542,658,682	₩ 1,375,179,124	₩ 3,952,450,496	₩ 15,573,651,289
<b>Liabilities:</b>							
Deposits (*3)	₩ 459,256,882	₩ 35,073,968	₩ 192,208,353	₩ 215,651,604	₩ 1,184,136,365	₩ 1,023,701,940	₩ 3,110,029,112
Financial liabilities held-for-trading	155,860	383,731,816	215,425,088	17,816,884	1,106,709,388	144,778,725	1,868,617,761
Financial liabilities designated at fair value through profit or loss	6,803,235	70,940,020	240,559,721	65,990,707	177,049,851	93,593,895	654,937,429
Borrowings	4,311,430,390	558,180,940	494,700,976	192,700,000	501,200,000	1,524,896,567	7,583,108,873
Debentures	210,000,000	223,400,000	657,000,000	10,400,000	50,800,000	240,000,000	1,391,600,000
Other financial liabilities	155,777,440	2,871,627	32,999,026	-	188,701,412	82,512,133	462,861,638
	₩ 5,143,423,807	₩ 1,274,198,371	₩ 1,832,893,164	₩ 502,559,195	₩ 3,208,597,016	₩ 3,109,483,260	₩ 15,071,154,813

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

(\*2) Deferred loan fees and present value discounts are excluded from loans.

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

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

Maturity profiles of the marketable non-derivative financial instruments are within one week and maturity profiles of non-marketable non-derivative financial instruments are their residual maturities.

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

The residual maturity of derivative financial instruments as at December 31, 2017 and 2016 consists of the following (Korean won in thousands):

		December 31, 2017						
		Within 1 week	After 1 week~ but no later than 1 month	After 1 month~ but no later than 3 months	After 3 months~ but no later than 6 months	After 6 months~ but no later than 1 year	After 1 year	Total
Exchange-traded derivatives	₩	11,508	₩ (831,846)	₩ 237,246	₩ 5,806	₩ 4,477,470	₩ 19,404,723	₩ 23,304,907
Over-the-counter derivatives:								
Interests		(78,812)	119,062	62,816	(259,386)	(318,254)	11,098,193	10,623,619
Currency		(35)	2,070,225	2,116,754	725,200	428,792	(1,841,779)	3,499,157
Stock		-	-	-	607,762	(28,978)	(5,982,869)	(5,404,085)
Credit		-	-	-	-	-	418,856	418,856
Others		-	21,885	65,584	11,551	(1,352,155)	(957,174)	(2,210,309)
	₩	<u>(78,847)</u>	<u>₩ 2,211,172</u>	<u>₩ 2,245,154</u>	<u>₩ 1,085,127</u>	<u>₩ (1,270,595)</u>	<u>₩ 2,735,227</u>	<u>₩ 6,927,238</u>
	₩	<u>(67,339)</u>	<u>₩ 1,379,326</u>	<u>₩ 2,482,400</u>	<u>₩ 1,090,933</u>	<u>₩ 3,206,875</u>	<u>₩ 22,139,950</u>	<u>₩ 30,232,145</u>

  

		December 31, 2016						
		Within 1 week	After 1 week~ but no later than 1 month	After 1 month~ but no later than 3 months	After 3 months~ but no later than 6 months	After 6 months~ but no later than 1 year	After 1 year	Total
Exchange-traded derivatives	₩	75,182	₩ 56,249	₩ 332,768	₩ (811,677)	₩ (75,821)	₩ 7,756,426	₩ 7,333,127
Over-the-counter derivatives:								
Interests		(204,630)	(244,266)	(539,343)	(260,410)	1,450,121	16,072,582	16,274,054
Currency		(782,226)	(1,549,984)	(3,127,767)	1,367,413	23,406,632	168,925	19,482,993
Stock		-	-	-	-	(7,599,197)	20,400,139	12,800,942
Credit		-	-	85,593	-	301,126	-	386,719
Others		-	-	91,013	(462,741)	854,732	(130,361)	352,643
	₩	<u>(986,856)</u>	<u>₩ (1,794,250)</u>	<u>₩ (3,490,504)</u>	<u>₩ 644,262</u>	<u>₩ 18,413,414</u>	<u>₩ 36,511,285</u>	<u>₩ 49,297,351</u>
	₩	<u>(911,674)</u>	<u>₩ (1,738,001)</u>	<u>₩ (3,157,736)</u>	<u>₩ (167,415)</u>	<u>₩ 18,337,593</u>	<u>₩ 44,267,711</u>	<u>₩ 56,630,478</u>

**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 at the reporting date.

The Group manages and controls the market risk arising from the changes of market variables within adequate level by measuring and monitoring the risk exposures on a regular basis.

**Trading positions**

The trading positions include positions of interest rate, equity price, commodity and foreign exchange held for trading purpose:

- (i) Financial instruments for the purpose of acquiring the differences incurred due to held-for-trading or price fluctuations
- (ii) Financial instruments for the purpose of hedging risks
- (iii) Financial instruments for the purpose of acquiring arbitrages
- (iv) Financial instruments for the purpose of acquisition, brokerage, and market-making

The Group's principles to manage the market risk of its trading positions are to measure its market risk status on a regular basis and to establish and comply with the various market risk limits. The Group analyzes whether the return against risk is appropriate by reviewing its profit and risk on a regular basis.

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

**Value at risk (VaR)**

Value at Risk ("VaR") is a primary method that manages and measures the degree of market risks of the trading portfolio subject to exposure, which estimates the potential loss of the trading portfolio that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The Group calculates VaR for a standard 10 days in the 99% confidence level. In addition, to account for the method's limited use, a stress test is performed in order to measure the extent of the loss in extreme cases.

The types of Market VaR as at December 31, 2017 and 2016 consist of the following (Korean won in thousands):

	December 31, 2017	Average	Max	Min	December 31, 2016
Interest rates risk	₩ 12,074,127	₩ 12,376,847	15,030,891	9,765,607	₩ 5,416,615
Stock price risk	24,145,309	12,199,183	28,416,520	7,121,778	7,653,772
Foreign exchange rates risk	1,927,894	1,760,041	2,850,667	1,023,815	1,500,180
Total risk	<u>₩ 38,147,330</u>				<u>₩ 14,570,567</u>

**Non-trading position**

Interest rate risk of non-trading position is the risk of loss when interest rate fluctuates at a disadvantage to assets and liabilities sensitive of interest rate. This is caused by the mismatch between the maturity structure of interest-bearing assets and liabilities and the interest rate revision cycle. Meritz Capital Co., Ltd., a subsidiary, maintains interest rate risk management on all interest-bearing assets, liabilities and transactions except for those subject to price fluctuation risk management.

The interest rate VaR is an estimated maximum loss of net asset due to adverse changes of interest rate. The interest rate VaR of non-trading position of Meritz Capital Co., Ltd., a subsidiary, calculated by standard method as at December 31, 2017 is as follows (Korean won in thousands):

	December 31, 2017	December 31, 2016
Interest rate VaR	₩ 58,394,151	₩ -

**Operational risk**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. Risks related to strategy or damaging reputation are excluded but legal or regulatory implications are identified as operational risks. Operational risk includes non-financial risks related to losses due to internal operational problems and due to externalities such as natural disasters and terrorist attacks. Operational risk does not have a direct correlation with income and the Group needs to mitigate such risk through internal controls and insurance. The Group measures the operational risk exposures using the approaches suitable to the Financial Investment Industry Regulations.

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

**Capital management**

The Group evaluates the internal capital adequacy by calculating net capital ratio ("NCR") in accordance with the *Regulation on Financial Investment Services* and detailed enforcement regulations in order to have adequate capital and comply with supervisory regulation.

NCR as at December 31, 2017 and 2016 consist of the following (Korean won in thousands):

	December 31, 2017	December 31, 2016
I. Net capital for business	₩ 2,185,717,094	₩ 1,252,345,674
Net asset amount in consolidated financial statements	3,310,993,563	1,878,310,227
Deduction	(1,281,651,124)	(751,454,245)
Add	156,374,655	125,489,692
II. Total risk amount	581,610,550	323,231,106
Market risk amount	311,790,231	198,691,611
Credit risk amount	168,610,840	44,870,646
Operating risk amount	101,209,479	79,668,849
III. Surplus capital(I - II)	1,604,106,544	929,114,568
IV. Regulatory capital required (*)	134,610,000	134,610,000
V. NCR(III/IV)	1,191.67%	690.23%

(\*) Own capital required is calculated as 70% of legal capital (₩192.3 billion).

**48. Comprehensive share exchange**

By the resolution of the Board of Directors on November 16, 2016, the Company entered into a comprehensive share exchange agreement with Meritz Capital Co., Ltd., where the Company gains 100% ownership in Meritz Capital Co., Ltd. The objective of the comprehensive share exchange is to promote efficiency and unity of management thereby create synergy effects. This may also enhance corporate value as well as continuous growth.

The share exchange agreement was approved at the general meeting of shareholders on March 24, 2017. 43,200,000 shares of Meritz Capital Co., Ltd. and 109,002,538 common shares of the Company (2,523,2069 shares of common stock of the Company per ordinary share of Meritz Capital Co., Ltd.) were exchanged on April 28, 2017, the stock exchange date.

The book value of Meritz Capital Co., Ltd.'s assets and liabilities as at March 31, 2017 are as follows (Korean won in thousands):

	March 31, 2017
Cash and due from banks	₩ 502,782,531
Financial asset at fair value through profit or loss	2,223,678
Available-for-sale financial assets:	54,514,300
Loans receivable	2,476,399,035
Lease asset	766,458,069
Property and equipment	1,423,648
Intangible assets	3,207,945
Other assets	36,836,961
	3,843,846,167

**48. Comprehensive share exchange (cont'd)**

	<u>March 31, 2017</u>
Deposits	₩ 121,476,947
Borrowings	475,000,000
Debentures	2,746,182,002
Income tax liabilities	14,755,786
Other liabilities	<u>78,280,457</u>
	<u>3,435,695,192</u>
Net asset value	<u>₩ 408,150,975</u>

The comprehensive share exchange is a business combination under common control where Meritz Capital Co., Ltd., the subsidiary of Meritz Financial Group Inc., the controlling company, becomes a wholly-owned subsidiary of the Company. Accordingly, the Company accounted for the comprehensive share exchange by using book values of assets and liabilities of Meritz Capital Co., Ltd. in the consolidated financial statements of Meritz Financial Group Inc. The Company also adjusted the difference in the book values of assets and liabilities and issued share consideration in other components of capital.

**49. Approval of the financial statements**

The 2017 consolidated financial statements were approved by the Board of Directors on February 1, 2018.