
1Q25 Financial Results

Earnings Call Transcript

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1Q25 Earnings Results

[Operator]

Good afternoon and thank you for attending today's call. We will now begin Meritz Financial Group's 1Q25 Earnings Call.

[MFG IR]

Good afternoon. This is Sang-hoon Kim, Head of IR at Meritz Financial Group.

Thank you for attending our first-quarter of 2025 earnings call.

In today's call, we have prepared three sessions: 1) CEO greeting, 2) 1Q25 earnings review, and 3) Q&A session, and will be placed in order. The Q&A session will be divided into two parts: on-site questions from analysts and institutional investors and preliminary questions from general shareholders.

First, we have a greeting from Vice Chairperson and CEO of our group, Yong-beom Kim.

[MFG CEO]

Good afternoon. This is Yong-beom Kim, CEO of Meritz Financial Group.

Thank you everyone for attending 1Q25 IR session.

During the first quarter, we experienced various developments in our insurance and securities. We hope today's IR session will help investors better understand these changes.

Joining us today are Vice Chairperson Hee-moon Choi, and CEOs of Fire & Marine and Securities, CRO of the group.

We will provide clear and detailed answers during the Q&A session following the earnings review.

Thank you.

[MFG IR]

Thank you for the greetings.

Next, we will begin with the earnings review for 1Q25.

We will start with the holding company.

We have 1Q25 highlights on page 3. The holding company's consolidated assets reached 119.7 trillion KRW, up by 3.6% year-over-year. The cumulative consolidated net profit amounted to 620.8 billion KRW, up by 5% year-over-year. The ROE stands at 24.6%, maintaining its position as one of the highest in the industry. Cumulative EPS and BPS for 1Q were 3,353 KRW up 10.1% year-over-year and 54,536 KRW, 0.1% increase from end of the year.

Next is page 4, The holding company's consolidated net profit for 1Q25 was 620.8 billion KRW. Despite rising domestic and global uncertainties, net profit grew 5% year-over-year, supported by steady growth in net interest income and improved performance from financial product investments.

Meritz F&M posted standalone net profit of 462.5 billion KRW. Although expected and actual variance income declined, this was offset by the reversal of onerous contract expenses and a significant increase in investment income. Net profit declined 5.8% year-over-year.

Meritz Securities delivered net profit of 230.7 billion KRW, marking a 15.5% year-over-year increase, driven by strong performance in both corporate finance and asset management.

Meritz Capital reported net profit of 28.3 billion KRW, up 9.3% year-over-year. Despite rising funding costs, robust results in corporate finance supported the growth.

Next is page 7. For 1Q25, the holding company recorded a Return on Equity (ROE) of 24.6% and a double leverage ratio of 111.2%, continuing to maintain a high ROE and stable leverage profile. Earnings per share (EPS) stood at KRW 3,353 and book value per share (BPS) at KRW 54,536, reflecting a continued increase in per-share value.

Next on page 8, as of the end of 1Q, the group's total real estate exposure stood at 26.3 trillion KRW—21.8 trillion KRW domestically and KRW 4.5 trillion overseas. Senior-secured loans accounted for 92% of the total, with an average loan-to-value (LTV) ratio of 44%, indicating a high-quality asset portfolio.

Provisions and reserves net addition amounted to 586.1 billion KRW, driven by provisioning for Homeplus loan assets and the upward adjustment of reserve ratios by asset quality classification. These actions reflect proactive credit cost management.

Total Homeplus loan exposure is 1.2 trillion KRW, with collateral of approximately 4.8 trillion, KRW ensuring no issues with principal and interest recovery. All related exposures have been reclassified as substandard assets and fully provisioned this quarter.

At last, the mid-term shareholder return policy currently in place will continue through 2025. A mid-cycle evaluation over the past two years indicates valuation normalization, evidenced by improved PER and other market indicators. Total shareholder return (TSR) reached an outstanding 152.2% over the two-year period.

Accordingly, the 2025 plan will maintain the current mid-term shareholder return policy, with TSR as a key performance metric and a payout ratio of 50% of consolidated net profit as the implementation target.

Please refer to page 12 for detailed updates.

As of April, the company completed the full cancellation of 1 trillion KRW in treasury shares acquired since March 2024. In addition, the company is currently executing a 550 billion KRW share buyback through a trust agreement signed on March 26. The company remains committed to its disclosed shareholder return policy.

Next is the performance of our major subsidiaries.

First, Fire & Marine on page 13.

In 1Q25, Meritz Fire's standalone net profit amounted to KRW 462.5 billion, representing a decline of approximately 5.8% year-over-year. Despite a significant drop in expected to actual variance income due to favorable assumption changes at the end of last year and the base effect reversal from the medical strike, this was offset by the reversal of onerous contract expenses and a substantial increase in investment income.

Insurance profit came in at 359.8 billion KRW, down 21.4% from the same period last year, while investment profit increased 29.3% year-over-year to 262.1 billion KRW. Although there was a reversal of expenses from the reduction in onerous contracts, insurance profit declined due to reduced long-term expected to actual variance income and a rise in loss ratios for auto and commercial insurance.

Investment profit reached an all-time high, primarily driven by early redemptions of certain deals.

1Q performance by sectors as follow:

The long-term protection-type insurance market recorded its highest-ever volume in March due to the discontinuation of no/low surrender products. The company refrained from selling unprofitable products and focused on total value rather than total volume. As a result, new sales averaged 9.4 billion KRW per month, a 5.8% decrease year-over-year, but the quality of sales improved.

Auto insurance recorded a loss due to increased loss ratios caused by heavy snowfall and a cold wave in February. Commercial insurance also posted a loss due to a rise in high accident events such as wildfires in North Gyeongsang Province.

The next section, on page 14, covers the CSM movement and the new business CSM multiple. At the end of 1Q, the CSM balance stood at 11.1671 trillion KRW, a decrease of approximately 20.8 billion KRW compared to the previous quarter. Quarterly CSM increased by 356.8 billion KRW, and interest expenses added 89.6 billion KRW, while CSM adjustments reduced the balance by 179.5 billion KRW. Quarterly amortization of CSM amounted to approximately 287.6 billion KRW.

The CSM conversion multiple for 1Q was approximately 12.2x, and for health protection-type insurance, it stood at 12.5x, both showing an improving trend compared to the previous quarter and the same period last year.

Please refer to pages 16 and 17 for the investment yield and K-ICS ratio.

The cumulative investment yield for 1Q was 4.1%, with the preliminary K-ICS ratio at 239.0%.

Next is Securities on page 18.

In 1Q25, consolidated net profit amounted to 187.4 billion KRW, marking a 48.1% increase year-over-year. Standalone net profit was 230.7 billion KRW, up 15.5% from the same period last year. Excluding the capital dividend income received in March, standalone net profit reached 153.0 billion KRW, representing a significant 62.2% increase year-over-year.

Despite rising domestic and external uncertainties, the company achieved substantial performance improvements in both corporate finance and asset management by actively sourcing new deals and responding effectively to market volatility.

On page 19, shows operating revenue by business.

Corporate finance posted a profit of 105.7 billion KRW in 1Q, showing a significant improvement compared to the same period last year. This performance was driven by the execution of various new deals and a reduction in credit loss expenses. Despite the decline in interest rates, financial margins improved slightly due to an increase in asset size. Asset management income rose significantly, backed by dividend income from overseas equity investments.

Although brokerage performance declined due to promotional campaigns, wealth management showed strong growth, supported by increased fee income from growing client deposits.

Moving on to page 23, risk management indicators:

The consolidated Net Capital Ratio (NCR) stood at 1,234%, improving quarter-over-quarter as net operating capital increased despite the continued rise in total risk exposure. In 1Q, following the initiation of Homeplus's rehabilitation proceedings, related loan assets were reclassified as substandard, leading to an increase in the ratio of substandard or lower-rated exposures to 6.5%.

For Capital earnings and more details on Securities, please refer to the material.

Institutional Investors Q&A

※ Comments from the host and operator have been omitted.

Q1.

I have two questions. First, regarding Homeplus' rehabilitation plan—what level of impact do you expect this to have on the company? Has Homeplus stopped paying interest? Given that the collateral value exceeds the loan amount, do you intend to improve profitability through asset liquidation? Also, are there any additional provisions or reserves expected?

Q2.

My second question is about real estate. Corporate loan delinquency rates, including those from SMEs, have been rising recently. Given Meritz's high exposure to real estate loans, it seems your provisions have increased. Could you elaborate further on the group's overall exposure and credit cost details?

A1.

This is Group's CRO, Jongwon Oh.

Even if the Homeplus rehabilitation plan proceeds, it will not affect our recovery of principal and interest. We have secured approximately KRW 4.8 trillion in real estate collateral against the KRW 1.2 trillion loan, which ensures stable recovery regardless of the rehabilitation plan.

As for the interest, approximately KRW 24 billion is generated per quarter, and we received the last payment at the end of February. Future interest payments will depend on the progress of the rehabilitation plan.

We have set aside KRW 17.8 billion in provisions and KRW 225.5 billion in reserves. We believe the likelihood of significant additional provisioning is low.

A2.

Next about the second question, I will explain about real estate exposure and credit loss expenses.

Let me start with our domestic real estate exposure. Total exposure is KRW 21.8 trillion, including KRW 16 trillion in project financing (PF). Of this, 95% is in senior positions with an average LTV of 40%. As of end-1Q, the delinquency rate was 5.3%, a 1.5 percentage point increase from the previous quarter.

In response, we raised our reserve ratio from 1.2x to 1.4x from the Financial Supervisory Service guideline. As a result, we additionally provisioned KRW 13.9 billion and reserved KRW 573.6 billion. This reflects the impact of both Homeplus provisioning and higher reserve ratios.

As for overseas real estate, total exposure is KRW 4.5 trillion, of which KRW 2.8 trillion is in commercial properties. We added KRW 1.7 billion in provisions while reserves decreased by KRW 3.1 billion. We also reflected a KRW 13.7 billion write-down in investment securities.

Q3.

I have two questions regarding Meritz Fire's earnings. First, there were several issues affecting non-life insurers in 1Q—such as the flu outbreak in January, cuts in auto insurance premiums, and wildfires. How did these events impact Meritz F&M?

Q4.

Second, it appears that insurance profit is decreasing while investment profit is increasing, effectively offsetting the decline. Due to changes in assumptions at the end of last year, expected to actual variance profits fell, while investment gains rose. Do you think this trend of lower insurance profits and offsetting investment gains will persist throughout the year?

A3.

This is Joonghyun Kim from F&M

Regarding the flu, wildfires, and other 1Q issues, the non-life insurance industry experienced increased respiratory-related claims, auto accidents due to the February cold wave, and losses from wildfires in Gyeongbuk Province—all of which impacted profitability.

In our case, the commercial insurance loss ratio increased by 4.9%p YoY to 72.7%, with wildfires accounting for approximately KRW 3.8 billion, or +2.8%p in loss ratio.

Auto insurance loss ratio rose 4.4%p YoY to 82.5%, with the cold snap contributing +2.6%p.

Long-term risk loss ratio rose 1.4%p YoY to 93.3%.

We assume our respiratory-related loss ratio increase was relatively lower than peers, due to our conservative product structuring last year, especially around flu diagnosis benefits.

A4.

In 1Q we saw insurance profit decline due to the reverse base effect of the medical strike and favorable assumption changes at year-end, resulting in lower reserve margin earnings. At the same time, we reversed onerous contract liabilities.

Our new business CSM multiplier improved significantly to 12.2x from 9.4x in the previous quarter, as expected.

Although reserve margin profit may decline going forward, we expect steady improvement in long-term insurance profit due to growing CSM, reduced onerous contract liabilities, stronger new business volume, and better underwriting quality.

Investment profit increased by about KRW 60 billion, largely from improved asset turnover due to early redemptions and about KRW 30 billion in reduced provisioning compared to 1Q24.

Overall, we anticipate consistent growth in both long-term insurance and investment income.

Q5.

I have two questions regarding Meritz Fire. First, since April, no-surrender-value products saw price hikes industry-wide. I heard Meritz implemented smaller increases than peers and even lowered premiums for some products. Could you share your average rate changes and how you expect competition and sales trends to evolve post-April?

Q6.

Second, regarding distribution channels, I understand Meritz has been strengthening face-to-face sales channels. You have historically relied on GAs, which still represent a significant portion of sales. Given recent fee reforms and new regulations affecting GAs, how does Meritz plan to manage its channel strategy, and is there room for market share recovery in GAs? Do you think the long-term protection-type insurance market will continue to grow this year?

A5.

As of April, following implementation of the lapse rate guidelines by regulators, premiums for major no-surrender-value products rose significantly across the industry. Meritz, however, cut premiums for simplified insurance by about 3% and raised premiums for flagship products (e.g., 5.10.5 plan) by only 2–4%.

As no-surrender products became more expensive, we expect growth in the protection-type market to slow due to diminished surrender incentives. At the same time, capital adequacy regulations and falling interest rates are likely to curb sales of long-maturity products.

In 1Q, the industry saw a record surge in no-surrender product sales due to pre-regulation hoarding. Meritz did not participate in this rush, leading to a 5.8% YoY decline in our new business. This was in line with our principle of not selling unprofitable products. Furthermore, our pricing strategy limited product appeal in GA channels.

A6.

Our channel strategy prioritizes value over volume in the GA market, which has grown highly price- and promotion-sensitive since IFRS 17 adoption. GAs now account for around 65% of market sales, surpassing captive channels.

Meritz plans to strengthen investment in TA, TM, and our new Partners channel. GA competition is expected to remain aggressive, so we are focused on expanding high-margin captive channels.

TA channels have grown steadily, with an average monthly increase of 180 agents YoY, boosting revenue by 7%. TM revenue is up 28% YoY, and the Partners channel now has over 7,000 agents—approaching the scale of a mid-sized insurer’s exclusive sales channel.

We believe our pricing competitiveness will support market share gains. Following April’s changes, our prices are among the most attractive in the industry. If profitability holds, we aim to maintain this position and diversify sales channels further.

Q7.

There appears to have been some fluctuation in our K-ICS ratio recently. Could you clarify how much of that was due to regulatory changes—specifically the final observation maturity, long-term forward rate, and other discount rate adjustments? Additionally, the financial authorities recently indicated that they would manage the K-ICS ratio at 130% rather than 150%, and mentioned a potential regulatory requirement on the basic capital ratio. Could you provide a brief update on the current status of those developments?

Q8.

Also, in recent DART filings and business reports, you've continued to disclose assumptions. Based on the disclosed data, it seems Meritz projects the highest long-term loss ratios—particularly in the 20 to 30-year duration range—compared to peers. Can you explain why our assumed loss ratios are higher than those of other companies?

A7.

Regarding the K-ICS ratio, the recent policy change lowers the regulatory standard from 150% to 130%, primarily to alleviate pressure on companies with relatively lower solvency ratios. Since Meritz maintains a K-ICS ratio well above 200%—currently at 239%—this change has minimal impact on us.

As for the new discount rate guideline applied in 2025, its effect was approximately a 9 percentage point reduction in our K-ICS ratio. However, even after fully reflecting future discount rate guidelines that will apply through 2027, our internal simulations indicate that we can maintain a ratio comfortably above 200%.

Regarding the potential basic capital ratio regulation: while it wasn't included in the recent revision, it's very likely to be formalized after further discussion. Specific regulatory details are not finalized yet, but once they are, we'll provide additional guidance.

As of now, our basic capital ratio stands at 91.7%, the second-highest in the non-life insurance industry, so we don't anticipate a material impact.

A8.

To answer your question on loss ratio assumptions, it can be divided into two parts: why Meritz has a high assumed loss ratio, and why there's such disparity across companies.

First, regarding our own assumptions: In IFRS 17 disclosures, companies present both actual (realized) and projected (expected) loss ratios. Our realized loss ratio for 2024 was 90%, while the projected loss ratio is 104%, resulting in a 14 percentage point difference.

We base our assumptions on five-year historical trends. Since actual loss ratios have shown a gradual upward trend, we believe it is reasonable to project continued increases. There is no better rational method at this point.

In absolute terms, we consider our assumptions to be best estimates. In relative terms, they are conservative. Our realized loss ratio is comparable to peers, but our projected loss ratio is 5–8 percentage points higher.

Notably, a 1%p decrease in our projected loss ratio would reduce the BEL by approximately KRW 700 billion and increase the CSM by the same amount.

Now, regarding inter-company variations:

The key reason is the lack of an agreed-upon and reasonable estimation methodology for expected loss ratios. As a result, there are instances where actual loss ratios and expected loss ratios are not closely correlated.

For example, among three companies—A, B, and C—with similar actual loss ratios, we observe cases where Company A assumes an increasing loss ratio, Company B assumes no change, and Company C assumes a decrease. Consequently, the differences in expected loss ratios across companies can exceed 10 percentage points.

However, in practice, the levels and trends of actual loss ratios across the industry have been largely similar. This is because the companies have consistently sold similar products with similar coverage to similar customer segments, the law of large numbers is in effect, and all companies are equally subject to seasonal effects and regulatory changes.

Ultimately, the current differences in the balance sheet figures—such as the size of BEL and CSM, or the new business profitability as represented by conversion ratios—stem from differences in expected loss ratio assumptions. In essence, these are differences in assumptions. However, due to the absence of a rational estimation methodology—particularly for ultra-long-

term loss ratios beyond 10 years where data is limited—the comparability of financial statements is compromised.

To summarize, our assumption is a best estimate in absolute terms and conservative in relative terms, with a sensitivity of KRW 700 billion per 1%p change in expected loss ratio. Meanwhile, the lack of a standardized and reasonable estimation method for loss ratios has led to significant discrepancies across companies, which we believe materially undermines the comparability of financial statements.

Q9.

I have two questions regarding the securities business, specifically the retail segment. First, we would like to ask about the Super 365 account fee promotion. Based on internal tracking of our retail client assets and market data related to overseas equity market share (M/S), we've observed a rapid uptick. Given this faster-than-expected growth, there are naturally promotional costs incurred. Could you please clarify whether the cost levels are in line with the original assumptions or guidance provided during the previous conference call, or if the pace of growth has led to a steeper cost trajectory? Understanding this trend would greatly help in refining our projections.

Q10.

Second, aside from the fee-related strategies in the retail business, there have also been media reports about developments targeting high-net-worth clients, such as family office services, as well as upgrades to trading platforms, including next-generation and web-based trading systems. If management could officially share any updates on the progress or the timeline for these initiatives, it would be highly appreciated.

A9.

This is Wonjae Jang from Meritz Securities.

First, I would like to address the cost burden associated with our zero-commission promotion. Launched in November last year, our Zero Commission Promotion is an industry-first and groundbreaking initiative that waives all stock trading fees and USD forex conversion fees for all customers trading through our Super 365 accounts. Six months into the promotion, customer assets under Super 365 accounts have grown to approximately KRW 7 trillion, and the monthly notional trading volume for overseas equities has exceeded KRW 10 trillion. This reflects solid progress in expanding our digital channel customer base.

As previously mentioned during our last conference call, we expect to incur a total cost of approximately KRW 100 billion for the promotion through the end of 2026. As of now, six

months into the campaign, the actual costs incurred are largely in line with our initial estimates. We believe the costs will remain manageable within the originally projected range. Going forward, we will continue to provide Meritz-exclusive differentiated services and experiences tailored to our rapidly growing digital customer base.

A10.

Next, let me elaborate on our retail wealth management initiatives, including services for high-net-worth individuals and the development of our next-generation online investment platform.

With continued economic growth, the number of HNWI's is steadily increasing, along with growing demand for specialized wealth management services tailored to each client segment. The services provided through our WM (Wealth Management) channel are evolving beyond simple financial product sales toward customized strategies and differentiated offerings that leverage each firm's strengths.

Meritz Securities, in particular, has strong capabilities in deal sourcing through our IB division and in risk management. Based on these strengths, we aim to deliver highly competitive and tailored solutions to our clients. In line with this strategy, we recently opened two new centers—in Gangnam and Yeouido. The Gangnam Center focuses on serving high-net-worth individuals, while the Yeouido Center is dedicated to retail corporate clients. Each center is led by a specialized director and will provide client-specific offerings aligned with the needs of their respective markets.

Now, regarding our next-generation online investment platform:

We are currently developing a new platform targeted for launch in the first half of next year. This platform will emphasize investor communities and hyper-personalized services. Moving beyond the limitations of traditional securities firms' mobile trading systems (MTS), we are building a revolutionary platform with a dedicated team comprised of top talent from leading tech companies. As a global investment community platform, we are also exploring partnerships with overseas financial platforms.

Through this platform, we aim to offer services and experiences distinct from traditional brokerages to the investors who have chosen Meritz Securities through our Zero Commission Promotion.

Q11.

We have two questions regarding the securities business.

First, there have been recent discussions in the market regarding the potential application for the issuance of investment notes. We would like to ask whether the company is indeed planning such an issuance. Additionally, it would be helpful if you could share your strategy for managing financial assets going forward in connection with this matter.

Q12.

Second, the company has been consistently issuing hybrid capital securities. Could you explain the rationale behind these issuances, and how the proceeds are intended to be used going forward?

A11.

This is Jongmin Kim, from Meritz Securities.

First, regarding the potential issuance of Investment Notes (Short-Term Corporate Bonds):

We have initiated internal preparations by launching a task force (TF) in May, with the goal of submitting our application within the year, aligned with the regulatory authorities' schedule for revising the institutional framework for investment firms. Through this, we aim to expand non-real estate corporate finance and diversify funding sources to enhance overall funding stability.

As part of the Financial Services Commission's "Corporate Finance Competitiveness Enhancement Plan", upcoming reforms to the regulations surrounding Investment Notes include introducing a mandatory allocation to venture capital, with a phased implementation schedule. By 2028, at least 25% of the funds raised through Investment Notes must be allocated to venture capital, while the proportion invested in real estate assets will be capped at 10%.

Given that these reforms are being implemented to enhance venture capital supply, we are fully aligned with the policy direction. We intend to increase our allocation to pure corporate finance accordingly. This is consistent with our strategy to build a well-balanced IB portfolio by expanding into non-real estate corporate finance.

A12.

Next, regarding the issuance of Hybrid Securities:

To begin with, the issuance of hybrid securities is not a one-off response to specific investment needs but a strategic measure aimed at maintaining a stable capital ratio over the medium to long term.

In 2024, the increase in provisioning and reserves, as well as the expansion of loan assets, led to a decline in net operating capital and a rise in total risk exposure. To maintain a sound capital ratio under these conditions, we proactively strengthened our capital base through the issuance of hybrid capital securities.

As you are well aware, increasing net capital fundamentally requires enhanced profit generation through business expansion. However, such expansion inevitably leads to a rise in total risk-weighted assets. There is always a time lag between increasing net capital through retained earnings and the corresponding rise in risk-weighted assets. The issuance of hybrid securities allows us to bridge this timing gap and establish a virtuous cycle of profit growth and capital ratio improvement.

We are approaching the balance between business growth and capital adequacy with consistency and a long-term perspective. Going forward, we will continue to consider and execute strategic and efficient capital deployment.

Q13.

Thank you for the opportunity to ask questions. I have two inquiries.

First, regarding foreign currency-denominated assets:

Given the recent increase in FX volatility driven by uncertainties surrounding U.S. tariff policies and broader domestic and global macroeconomic concerns, could you share the total group-wide exposure to foreign currency assets, including U.S. dollars, as well as the degree of profit sensitivity to exchange rate fluctuations?

Additionally, if there are any measures in place to mitigate such volatility, we would appreciate your comments on that as well.

Q14.

Second, this question relates to regulatory accounting changes.

As you're aware, over the past two years there have been multiple changes to accounting standards, resulting in heightened financial statement volatility and increased uncertainty across the sector. While we understand the company has actively responded to these developments through various measures, do you believe the accounting standards are now stabilizing? Or should we expect continued volatility going forward? We would appreciate hearing management's outlook on this matter.

A13.

This is Hee-moon Choi from Meritz Financial Group.

Let me address the question regarding foreign currency asset exposure.

As of now, the Group's foreign currency-denominated assets, when converted to U.S. dollars, total approximately USD 6.7 billion, while foreign currency liabilities amount to USD 6.0 billion. Our foreign currency liquidity ratio exceeds 110%.

As a core principle, the Group does not take open directional positions in foreign currency assets or liabilities. With the exception of limited positions managed within predefined limits by our trading desks, we do not maintain any directional foreign exchange exposures.

In the case of overseas investment assets, foreign exchange exposure may temporarily arise due to significant fluctuations in asset values. However, such exposure is actively hedged to avoid currency risk. Our investment approach prioritizes asset value over currency direction, and this policy will remain unchanged going forward.

A14.

This is Yong-beom Kim from Meritz Financial Group.

I will respond to the question regarding IFRS 17 and related accounting reforms.

To briefly summarize what I shared during the May 2023 IR session:

The Contractual Service Margin (CSM), which reflects the earnings power of insurers, is based on three major assumptions—loss ratio, lapse ratio, and long-term discount rate. Among these, the assumed loss ratio for indemnity health insurance and the lapse ratio for non-surrender products were the most problematic at the time.

Over the past two years, the financial regulators have actively addressed these issues through insurance reform task forces, the introduction of new guidelines, and enhanced disclosure requirements. As a result, the issues surrounding loss ratio assumptions for indemnity insurance and lapse rate assumptions for non-surrender products have been largely resolved. This has significantly improved the accuracy and credibility of insurers' financial statements under IFRS 17 compared to the early stages of adoption.

However, after reviewing the recently disclosed long-term ratio assumptions under the new disclosure regime, we believe that overall accounting consistency across the industry remains at only about 70%.

Initially, we had assumed that long-term ratios would be automatically corrected over time via actual-to-expected variance and would be little room for arbitrariness. In practice, though, with improvements made to the indemnity and lapse assumptions, long-term assumptions—which currently lack detailed regulatory guidelines—may now be contributing to what we call a balloon effect.

As mentioned earlier by CEO Joonghyun Kim, we have observed several cases where the correlation between actual loss ratios and expected loss ratios is unreasonably low. For example, insurers with similar actual claims experience show completely opposite expected trend assumptions. In some cases, expected loss ratios are assumed to be significantly lower than current actual results.

Of course, forecasting inherently involves differences in methodologies and perspectives across firms. However, when products are similar and the law of large numbers applies, excessive gaps between actual and expected loss ratios can inevitably damage the credibility of financial statements.

The real issue is that such irrational assumptions allow profits to be realized in the present while deferring losses to future generations. Moreover, artificially inflating profits in this way can create an illusion of high profitability for long-term products, fueling price undercutting and unsustainable competition through excessive sales promotions.

Therefore, despite the fatigue caused by recent regulatory changes, we strongly believe that further reforms—specifically targeting long-term ratio assumptions—are essential to ensure the sustainable and healthy growth of the insurance industry.

Individual Investors Q&A

※ Comments from the host and operator have been omitted.

Q1.

With an increasing number of joint investments being made under the "One Meritz" strategy across the three core subsidiaries, there could be broader implications should any issues arise. In that context, what would you consider the most critical risk management capability?

A1.

This is Jong-won Oh, CRO of Meritz Financial Group.

As you noted, risk management becomes even more critical when joint investments are undertaken by the three core subsidiaries. In such cases—especially for large-scale deals—the single most important risk factor we focus on is downside risk.

At Meritz, our top priority in all joint investments is eliminating downside risk. We only proceed with an investment once we are confident in the profitability and have secured a structure that ensures there will be no losses even under a worst-case scenario.

For example, in the Lotte Engineering & Construction deal, we thoroughly assessed the collateral value and reinforced any shortfalls with credit enhancement structures to ensure safety. In the Homeplus deal, we secured sufficient collateral via a trust structure, enabling full recovery of principal and interest regardless of the company's rehabilitation plan.

The Meritz Group will continue to apply conservative standards and proactively manage risk going forward.

Q2.

With the resumption of short selling at the end of March, the short-selling ratio within your trading volume appears relatively high. Is the company considering any response strategies to address this?

A2.

This is Yong-beom Kim from Meritz Financial Group.

Short selling involves a wide range of investors with varying objectives and strategies. Therefore, Meritz considers short selling to be a natural part of the market. In other words, we regard short sellers as legitimate participants in price discovery and do not intend to take artificial or defensive measures in response.

Rather than reacting to price fluctuations driven by short selling, we remain focused on enhancing intrinsic value. When we believe the stock is undervalued due to short selling, we see it as an opportunity to repurchase our shares at attractive prices.

Q3.

Last year, following the exercise of stock options by key executives, a substantial portion of shares was effectively monetized. This raises concerns that the incentive to increase the stock price may have weakened. Is there any plan to reintroduce executive stock option programs? Also, could you share any current employee equity compensation plans?

A3.

Meritz has long utilized stock options as part of its Long-Term Retention Plan. Specifically, after a performance evaluation over 3–4 years, verified top executives are granted stock options that vest upon five years of continued service, with a five-year exercise window. Similar plans are currently under consideration for the CEOs of both the Fire and Securities subsidiaries.

In addition to executive stock options, we have various programs that promote employee share ownership and shareholder-aligned management. These include deferred bonuses linked to share performance and employee stock purchase plans with savings incentives. As a result, a majority of our employees are shareholders, reinforcing a culture of shareholder-oriented management across all levels of the organization.

The end.