
2024 Financial Results

Earnings Call Transcript

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2024 Earnings Results

[Operator]

Good afternoon. Thank you for attending today's call. We will now begin Meritz Financial Group's 2024 Earnings Call.

[MFG IR]

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

Thank you for attending our 2024 earnings call.

In today's call, we have prepared three sessions: 1) CEO greeting, 2) 2024 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 the 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 the 2024 IR session.

In 2024, our group has gone through various changes.

Today's earnings call is expected to be a great opportunity to review and summarize those changes.

Joining us today are Vice Chairman Hee Moon Choi, CEOs of Fire & Marine and Securities, and CRO of the group.

After the earnings presentation, we will provide candid and specific answers during the Q&A session.

Thank you.

[MFG IR]

Thank you for the greetings.

Next, we will begin with the earnings review for 2024.

First is on the holding company.

We have 2024 highlights on page 3. 2024 business performance highlights. The holding company's consolidated total assets are 116 trillion KRW, up 13.1% year-over-year. Consolidated net profit recorded 2.3334 trillion KRW, up by 9.8% year-over-year. ROE is still the industry's highest at 23.4%. 2024 EPS and BPS were 12,238 KRW and 54,489 KRW, up 11.6% and 4.5% year-over-year, respectively.

Next, on page 4. We have a detailed performance of the holding company. Consolidated net profit for 2024 was 2.3334 trillion KRW, up by 9.8% year-over-year, recording the highest performance ever. Net profit for the fourth quarter was 349.9 billion KRW, down by slightly year-over-year.

Despite the challenging real estate market environment, the commission income decreased, but the income from investment in beneficiary certificates and financial instruments (other income) significantly increased, driving the performance to over 2.3 trillion KRW.

On page 5, by major affiliates, Fire & Marine Insurance recorded a separate net profit of 1.7105 trillion KRW, Securities recorded 630.1 billion KRW, and Capital recorded 117.1 billion KRW.

Fire & Marine Insurance recorded its best performance, up 9.2% year-over-year, driven by increased quality new sales and excellent asset management performance.

Securities achieved a net profit of 630.1 billion KRW, up by 48.5% year-over-year due to stabilization of the investment banking sector and solid asset management performance. Capital's net profit decreased 48% year-over-year due to the strict procurement market environment and conservative risk management.

Here are the changes in assets and capital on page 6. The holding company's consolidated assets for FY2024 recorded 115.6 trillion KRW, up about 13.1% from the end of 2023, driven by the steady increase in operating assets. Despite the continued return to shareholders, shareholder's equity recorded 10.9 trillion KRW, up 8.2% year-over-year, supported by a net profit of 2.3 trillion KRW.

On page 7. The holding company's ROE as of the end of the year was 23.4%, and its double leverage ratio was 117.7%. It still records a high ROE and a stable double leverage ratio. The EPS for 2024 was 12,238 KRW, and the BPS was 54,489 KRW, a steady increase in per-share value.

The following is the group's real estate exposure and provision status on page 8.

The group's real estate exposure at the end of 2024 was 26 trillion KRW, consisting of 21.7 trillion KRW domestically and 4.3 trillion KRW overseas. Of this, the proportion of senior loans is 92%, and the average LTV is 45%, indicating that the company still has a superior asset portfolio.

The net accrual of provisions and reserves at the end of 2024 is 92.2 billion KRW, showing a significant decrease compared to the end of 2023. Some impairments of overseas assets were actively reflected, and the reduction in beneficiary certificates was 296.3 billion KRW, similar to the previous year.

Lastly, on page 9, the performance of the corporate value-up plan for 2024. The total shareholder return in the year 2024 was 78.3%. The cumulative TSR since the announcement of the shareholder return policy in 2023 is 152.2%. The shareholder payout amount is 1.24 trillion KRW, including 1 trillion KRW in buyback through trust agreements and 240 billion KRW in dividends, recording the shareholder payout ratio in 2024 as 53.1%.

As of the end of December 2024, the forward PER is 8.0x, and the rate of return is 12.5% from the buyback and cancellation. It is still higher than our required rate of return of 10%, and we plan to continue the shareholder return policy centered on buyback in 2025 according to the disclosed standards.

Next is the performance of major affiliates.

First, Fire & Marine on page 14

The standalone net profit of 2024 was 1.7105 trillion KRW, up about 9.2% year-over-year. It achieved record-high performance by securing superior new sales and excellent asset management performance. Insurance profit 2024 was 1.5336 trillion KRW, up by 2.4% year-over-year. Despite the decrease in expected and incurred variance due to the effect of assumption changes, it improved slightly due to the decrease in onerous contract expenses and the increase in CSM amortization supported by the expansion of quality sales.

Investment profit recorded 761.6 billion KRW, up by 25.0% year-over-year. Despite the reflection of some overseas asset impairments in the second half of the year, the company recorded a significant improvement in profit by securing high-quality interest-bearing assets.

Next is the breakdown of profits by line in 2024. The long-term health insurance market experience high competition in 2024, with significant growth driven by price-discounted products. We avoided simple external growth and responded with rapid market sensing and an expanded diverse product lineup. We achieved an average monthly new sale of 10.1 billion KRW, approximately 13.2% improvement year-over-year.

Auto insurance recorded an annual deficit due to an increase in loss ratio, while commercial insurance recorded a pre-tax profit of 67.9 billion KRW driven by a steady increase in gross premiums, recording a significant profit growth year-over-year.

On page 15 is the CSM Movement and new business CSM conversion multiples. At the end of 2024, the CSM balance was 11.1879 trillion KRW, an increase of about 719.2 billion KRW from the previous year. The annual new business CSM was 1.3796 trillion KRW, an increase of 337.8 billion KRW in interest and 151.9 billion KRW in CSM adjustments. The annual CSM amortization was about 1.1502 trillion KRW. The CSM conversion multiple in 2024 was about 11.2 times, and the health insurance recorded 11.4 times.

Please refer to pages 17 and 18 for the investment yield and K-ICS ratio.

The cumulative investment yield for 2024 was 3.7%, and the preliminary K-ICS ratio at 247.6%.

Next is Securities on page 19.

The consolidated net profit in 2024 was 696 billion KRW, up 18.0% year-over-year. The standalone net profit, excluding the subsidiary Capital, was 630.1 billion KRW, up 48.5%. Even excluding the dividend income from Capital, it showed 524.6 billion KRW, up 23.7% year-over-year.

In 2024, despite the difficult real estate and corporate economy, securities improved investment banking performance by conducting sound big deals, and despite the increased uncertainty in the financial market, it showed excellent asset management performance, showing significantly improved performance compared to the previous year.

On page 20, we have operating net revenue by divisions. The investment banking profit in 2024 was 379.4 billion KRW, improving significantly year-over-year. Despite the reflection of some overseas asset impairments, positive changes such as the reversal of provisions and the completion of high-quality big deals are continuing. Due to the decline in interest rates, the interest income decreased slightly, but the trading income improved significantly. Retail profit is steadily increasing, driven by the increase in Super 365 accounts and the zero-fee promotion.

On page 24 is the risk management indicator. Despite the steady increase in total risk exposure, the net capital ratio(NCR) on a consolidated basis is 1,219%, with an increase in net operating capital. The capital ratio is still being managed at a stable level. Amid enhanced management practices, including stricter business feasibility assessment standards in the first half of 2024, we promptly reflect rigorous evaluation results. The NPL ratio stands at 3.4%

Please refer to the material for Capital earnings and more details on Securities.

Institutional Investor Q&A

※ Comments from the host and operator have been omitted.

Q1.

Since the launch of the Super365 account, while maintaining the fee-free policy, you have aggressively grown the external size of the securities retail sector. In the previous conference call, you mentioned strengthening the retail business. Since we were initially a securities company specializing in investment banking, I am curious about the reason for recently focusing on the retail business and your ultimate goal. It was launched in November, but could you share more details on the specific impact you have observed so far?

Q2.

I understand that our business size is growing rapidly, which likely comes with cost burdens. For example, in the case of foreign stocks, we are covering SEC fees, and there may also be some cost burdens related to exchange rates. Could you share the expected level of expenditures through 2026?

A1.

This is Won Jae Jang, CEO of Meritz Securities.

First, I'd like to discuss our Super365 account and retail strategy.

Meritz Securities' digital-exclusive Super365 account is part of our commitment to breaking conventional norms and offering differentiated products, which is embedded in Meritz's DNA. In addition to offering one of the industry's lowest commission fees, we also provide an automatic RP investment service, ensuring competitive interest earnings on customer deposits.

Since November of last year, we have launched the industry's first-ever "zero-fee" promotion, completely waiving stock trading fees and currency exchange fees for both existing and new customers, including related third-party transaction fees.

As a result, our digital assets under management have grown from 1 trillion KRW to over 5 trillion KRW in just three months, and our customer base has exceeded 120,000, significantly contributing to the expansion of our digital channels. Additionally, we launched the industry's

first U.S. bond live trading service, available from 9 AM to 10 PM Korea time, which has received highly positive feedback.

Beyond digital channels, we are also preparing for a new leap in retail offline channels. We plan to offer exclusive investment products and solutions only Meritz Securities can provide. As part of this initiative, we have established PIB centers targeting corporations and high-net-worth individuals, including family offices, and we anticipate achieving tangible results soon.

Our ultimate goal in expanding the retail sector is to leverage our industry-leading investment banking and sales & trading expertise to offer differentiated services to a broader retail customer base. Through this, our clients will benefit from top-tier investment products and platforms, while we secure a more stable and diversified business portfolio.

First, I will talk about Super365 and the retail strategy.

Meritz Securities' digital-only Super365 account is part of Meritz's DNA of 'breaking the mold' to provide differentiated products. In addition to the industry's lowest commission, it gives RP automatic investment services to offer competitive interest income on deposits.

Since November of last year, we have been conducting a 'zero commission' promotion that has been the first in the industry to eliminate stock transaction fees and dollar exchange fees, including related agency fees, regardless of whether the customer is an existing or new customer.

As a result, digital management assets, which were approximately 1 trillion KRW, have exceeded 5 trillion KRW in just three months, and the number of customers has also surpassed 120,000, greatly contributing to the expansion of digital channels. In addition, we have launched a live trading service for US bonds that is available from 9 a.m. to 10 p.m. Korean time, the first in the industry, and are receiving a great response.

In addition to digital channels, we are preparing for a new leap forward in retail offline channels. We will provide products and investment solutions that only Meritz Securities can provide. We have established a PIB Center targeting corporations such as family offices and high-net-worth individuals, and we expect to see tangible results soon. The ultimate goal of focusing the entire company's capabilities on expanding the retail sector is to provide Meritz's differentiated services to various classes of retail customers based on the industry's best capabilities accumulated in investment banking and Sales & Trading. Through this, customers will be able

to enjoy the benefits of excellent products and investment platforms, and we will be able to secure a more stable and diverse business portfolio.

A2.

Next, I will discuss the expected costs and future vision related to the zero promotion.

The ongoing ‘zero commission’ promotion offers a 100% discount on brokerage fees charged by securities firms and related agency fees for domestic stocks, SEC fees for U.S. stocks, and even dollar exchange fees, ensuring customers do not incur any transaction-related costs.

The company is covering the various expenses involved in the transaction. While these may fluctuate based on market conditions or business environments, considering the current scenario, the total commission cost burden until the promotion concludes at the end of 2026 is anticipated to reach up to 100 billion KRW. This ‘zero commission’ promotion is not merely a cost expenditure; it is a long-term investment aimed at establishing Meritz Securities as a leader in the retail sector and creating synergy with other divisions of the company. Additionally, as Meritz pursues cost efficiency throughout the organization based on a principle of extreme rationalism, we are confident that this will not impose a significant financial burden on the company.

In the future, Meritz Securities' strategy will extend beyond free commissions to offer customers innovative services and products and a superior digital investment experience through the upcoming launch of a new digital investment platform currently in development. Ultimately, this will create a win-win situation for customers and Meritz Securities.

Q3.

It seems that F&M's fourth-quarter earnings were more volatile than expected. If there were any unique factors, could you please explain them?

Q4.

The CSM conversion multiple also seems to have declined somewhat. This may be a common industry trend, but it appears that the CSM balance has become more volatile due to a significant increase in experience adjustments. Could you please explain whether this was due to changes in accounting assumptions or whether other factors were reflected?

A3.

This is Kim Joong Hyun, CEO of Fire & Marine Insurance.

I will explain the F&MS's fourth quarter earnings result.

Fire & Marine Insurance's net profit for the fourth quarter was 217.8 billion KRW, down 53.1 billion KRW from 270.9 billion KRW year-over-year. The reason is that the effect of the IBNR regulatory revision was reflected in the fourth quarter of 2023, and the reverse base effect was that the expected profit in the fourth quarter of 2023 was relatively large.

To be more specific,

The expected and incurred variance profit in the fourth quarter of 2023 was 359.1 billion KRW, but in the fourth quarter of this year, it decreased by approximately 303.5 billion KRW to 55.6 billion KRW. On the other hand, the onerous contract expenses also decreased from KRW 293.6 billion KRW to 83.2 billion KRW, resulting in an increase of 210.4 billion KRW. The difference is approximately 93 billion KRW. This is the main reason for the decrease in profit compared to the period last year.

As I have mentioned several times in the past earnings call, the impact of the normalization of the accounting regulation and the update of assumptions on our financial statements is first, an increase in CSM, second, a decrease in expected and incurred variances, and third, a decrease in onerous contract expenses. Although there may be temporary fluctuations and volatility on a quarterly basis, you can see that this trend is being maintained.

A4.

In this extension, I will give you a general explanation of the CSM fluctuations.

Our CSM balance at the end of 2024 was 11.18 trillion KRW, an increase of approximately 720 billion KRW year-over-year and KRW 550 billion compared to the 3rd quarter.

Excluding the effects of increased new business sales and current period amortization, I will briefly explain the factors of increase and decrease compared to the previous year, such as experience adjustments.

The most significant factor for the increase is the update of the loss ratio assumption. The loss ratio decreased further than the estimate due to the impact of the medical strike in 2024. As the statistics for 2024 were reflected in the assumption at the end of the year, CSM increased by approximately 920 billion KRW compared to the previous period. On the other hand, due to the adjustment of the surrender rate and expenses assumptions, CSM decreased by 300 billion KRW and 330 billion KRW, respectively, a total of 630 billion KRW compared to the previous period.

To explain more specifically, in the case of the decrease in CSM due to the adjustment of the assumption of the surrender rate, as explained in the last earnings call, it is not a decrease due to the application of the zero surrender rate guideline, but the effect of the statistical update due to the increase in the surrender rate. It can be interpreted that our company was also affected by the transfer of contracts to other companies, which was pointed out as a factor in market growth. The effect of the adjustment of the assumption of the business expenses is the effect of the improvement of the business expenses system in 3Q. The change due to the clarification of other RA standards is the factor of the increase of approximately 390 billion KRW.

To briefly summarize the factors of the change and increase in the CSM balance, you can see that the effect of the update of the loss ratio statistics overwhelmed the rest, even though there were unfavorable changes in the surrender rate and expenses.

And as I mentioned at the end of the answer to the previous question, the overall impact of the normalization of the assumptions due to these statistical updates and the revision of the regulations on our financial statements for year of 2025, is the increase in CSM, the reduction of the expected and incurred variances, and the reduction of the onerous contract expenses.

In a similar vein, let me briefly explain the conversion multiple that indicates the profitability of new contracts. Our 4Q new contract conversion multiple for personal insurance was about

9.5 times lower than the 2024-year average of 11.4 times. This is the effect of improving the operating expenses regulations in 3Q. On the other hand, the conversion multiple for year 2025, which reflects the year-end assumptions, is expected to recover to the previous year's level right away.

Q5.

I am curious about the updates to the shareholder return plan that will be applied in 2025.

Additionally, I would like to know the impact of the recent talk about value-up tax benefits and the revised enforcement decree on the improved buyback regulation, which was amended at the end of last year.

Q6.

In last year's earnings call, you mentioned the earnings direction of F&M and securities. Even if it does not provide detailed guidance, can you tell us the direction of each company in 2025? I would appreciate it if you could also mention it since it seems to affect capital allocation from the group's perspective.

A5.

This is Jong-won Oh, the CRO of the holding company.

I will answer your questions about the shareholder return plan.

Our company is implementing the mid-term shareholder return policy announced in 2022, and this policy will continue in 2025.

However, there will be two changes in the specific implementation method due to the value-up tax benefits currently being promoted by the government and the improvement of the buyback regulation revised at the end of last year.

First, we are reviewing changing the timing of buyback cancellation in order to maximize the value-up tax benefits. If we analyze the value-up tax benefit plan currently being reviewed, the tax benefits increase when buyback stocks are held for 1 to 1.5 years and then cancelled, rather than cancelling them immediately after the buyback trust ends. Therefore, going forward, we

plan to change the method to holding them for a certain period of time and then cancelling them, rather than cancelling them immediately when the buyback trust ends.

And about the second change, starting in the second half of 2025, the existing buyback will end, and a two-business-day suspension period will occur when a new buyback trust is executed. For example, if the buyback is completed by the 24th and a new buyback trust is to be initiated, the new buyback trust can be established on the 26th. In other words, a buyback will be suspended for two days, the 25th and 26th.

To summarize, there are two changes for buyback starting from fiscal year 2025. The cancellation time of the buyback may change. Second, there will be a two-business-day buyback suspension period after the end of the previous buyback.

These changes are due to regulatory improvements and tax benefits, and there is no change to our shareholder return philosophy of canceling 100% of the buyback to enhance shareholder value.

A6.

This is CEO Yong Beom Kim.

I will briefly talk about the earnings outlook of each company in 2025.

In 2025, we expect stable profit growth from the group.

There are three favorable changes for F&M.

First, CSM at the end of 2024 increased by approximately 720 billion KRW compared to the beginning of the year.

Second, as the IFRS17 low surrender rate guideline is fully implemented starting this April, profitability will improve and price competitiveness will increase. Sales growth has been restricted due to not participating in deficit competition.

Third, the burden will be reduced starting this year due to stricter depreciation of overseas commercial building investments over the past two years.

There are three favorable changes for securities as well.

First, we expect the contribution of profits from other sectors other than real estate to increase by recruiting exclusive talents in conventional IB.

Second, the trading book is larger than last year, and although it has both risk and opportunities, we expect profit growth considering the past stable performance.

Third, as with F&M, the impairment of overseas investments will decrease.

For these reasons, we expect overall stable profit growth in the year 2025.

Q7.

As you previously mentioned, several media reports have highlighted our recent active recruitment of external talent in investment banking, specifically within the traditional investment banking sector. This raises some questions—until now, we have not heavily focused on the conventional IB sector. Is this shift driven by changes in our market outlook or strategic direction? If so, we would appreciate it if you could share insights into the key factors behind this change as well as our strategy and market outlook moving forward.

Q8.

Secondly, regarding capital distribution, if we significantly expand the traditional IB sector, we will ultimately need more capital. In this context, I would like to inquire whether some of the capital allocations will originate from real estate finance, such as PF, which we have concentrated on, or if our shareholder return scale might be reduced in the mid to long term and what the implications will be for our capital.

A7.

This is Jong min Kim, CEO of Meritz Securities.

You asked about our recent expansion strategy in corporate finance.

Over the past decade, it is well known that Meritz Securities has achieved high-quality, concentrated growth by focusing on real estate finance, an area in which we excel.

However, with our expanded capital base and a growing pool of top-tier talent, the scope of areas where we can apply our "Selective focus" strategy has also widened.

For instance, while maintaining our dominant position in real estate finance, we have successfully executed major corporate finance deals in recent years, such as those for Lotte Group, Homeplus, and Korea Zinc. Given our superior pricing capabilities, swift deal-closing expertise, and strengthened financial position, we believe expanding into corporate finance is essential to building a well-balanced IB portfolio.

Looking ahead, we anticipate sustained strong growth in corporate finance as demand for financial solutions continues to rise.

With the core business competitiveness of domestic conglomerates gradually weakening and their financial stability deteriorating, the growing influence of big private equity firms and the increasing need for corporate governance improvements are expected to drive significant demand for financial restructuring and business portfolio realignment. Meritz is well-positioned to provide the optimal solutions, leveraging our accumulated expertise and extensive experience.

The strategic direction of Meritz IB business is clear. We aim to maintain our competitive edge in real estate finance and special situation deals while expanding into general corporate finance deals, which are distinct from our existing business and have minimal overlap.

Even as we expand our corporate finance segment, we will stay true to the Meritz DNA, which emphasizes genuine value creation. We will not engage in superficial league table competition, getting the spotlight on size.

In the process of expanding to conventional business units such as DCM and ECM, we will prioritize profitability over risk and actual value creation over its size, and rather than adopting a large and rigid organizational structure, we will maintain a lean, elite matrix-kind team.

The newly established divisions are composed of professionals who possess independent and self-sustaining business capabilities and have strong potential for expansion in the corporate finance sector.

Meritz can be best described as the ultimate "IB business platform"—built by a strong corporate culture, a sophisticated and timely decision-making system, robust capital resources, top-tier talent, and group synergy.

We believe that by integrating various business units such as real estate finance and corporate finance within this IB platform—while fostering close collaboration among top

professionals—we can establish deep trust with corporate clients, deliver the best solutions, and ultimately create a win-win outcome for both our clients and Meritz.

In conclusion, with our accumulated capital strength, we have expanded the scope of our "selective focus" strategy into the IB business. While maintaining the strengths of our existing businesses, we will leverage top-tier talent and fully activate our IB business platform—deeply embedded with the Meritz DNA—to capitalize on the growth opportunities in the corporate finance market and generate outstanding results.

A8.

The following is a question about the issue of capital allocation between the existing real estate finance sector and the newly expanded investment banking sector and the possibility of reducing the size of shareholder returns in the process.

As I mentioned, the primary direction of the IB business strategy is to maintain the strengths of the existing real estate finance and special situation deals while expanding the growth potential of the IB business.

As the size of profits grows as the IB business expands, a virtuous cycle between capital expansion and business growth will be formed in the mid-to-long-term. However, in the early stages, we have judged that there may be situations where a choice regarding the allocation of limited capital is temporarily necessary, and we have prepared a strategic response plan. The answer is to increase the asset turnover rate through strengthening the sell-down and product supply functions.

It is also true that Meritz has had the mindset of “it is more beneficial and better to generate profits taking all the good investments ourselves” rather than sharing and selling quality investment products with external customers.

However, from now on, we will change our mindset to share quality investment items with external customers through product supply, increase the company's book turnover, increase the volume of deals that can be handled, and strengthen our profit-generating capabilities.

First, we will improve the sales capabilities of the S&T division for plain vanilla IB deals and strengthen the syndication function of the IB itself to activate product supply, such as sell-down and fund formation targeting institutional customers.

In addition, we will strengthen the function of supplying safe and highly profitable products to retail customers in conjunction with the newly established PIB Center in the retail division.

In conclusion, we will strengthen the function of supplying quality products to customers and maximizing profit-generating capabilities by increasing sell-down and book turnover and resolving the issue of capital allocation due to the expansion of business areas.

I believe that if profit-generating capabilities are maximized, concerns about reducing the size of shareholder returns will naturally be resolved.

Q9.

I would like to ask a few questions regarding real estate finance, which you mentioned earlier. First, you explained the scale of the markdowns related to overseas real estate. Could you provide more details on the specific factors that influenced these adjustments and their impact?

Additionally, how do you foresee the market in 2025? Are there any exposures or risk factors that we should be aware of that could potentially materialize? A high-level explanation would be appreciated.

Regarding project financing (PF), we have observed a trend of increased provisioning due to business feasibility reassessments. How do you view the future of the PF market?

Lastly, although it may be a bit early to discuss, do you see any potential for provision reversals in the future? A brief insight on this would be helpful.

A9.

This is Jong Won Oh, Group CRO.

I will address the losses related to domestic and overseas real estate, while Vice Chairman Hee Moon Choi will provide insights on the real estate PF market.

For domestic real estate provisions, the net provision accumulated in 2024 decreased by 48.2 billion KRW, showing an improvement compared to the 277.5 billion KRW increase in 2023. This improvement was primarily driven by the reversal of previously accumulated provisions

to principal repayments. We anticipate that this trend of provision reversals will continue in 2025 as well.

On the other hand, impairments related to overseas real estate amounted to 296.3 billion KRW in 2024, remaining at a similar level to the previous year. This reflects the ongoing delay in the recovery of the global real estate market.

However, we expect the overseas real estate market to see a gradual recovery in 2025, which should reduce impairments resulting from valuation declines.

This is Hee Moon Choi.

Next, I will talk about the current condition and outlook of the real estate market.

Overall, the real estate PF market is showing signs of stabilization due to recent government policies and efforts by the financial industry. Still, it is a situation that requires continuous management and caution.

The authorities are making various efforts to stabilize the market, such as preemptively reorganizing PF loans with concerns of bad debt and distinguishing projects that require support through evaluating business feasibility. Financial institutions are also striving for risk management through large-scale reserve accumulation and loss reflection.

Recently, the PF market has been showing signs of recovery due to the cut in the base interest rate in Korea, and with interest in PF properties increasing, especially in Seoul, and the possibility of a global interest rate cut, including in the US, increasing, we can expect the liquidity pressure in the PF loan market to ease somewhat.

However, the overall recovery of the real estate market is still weak. Businesses in local and non-core areas are still experiencing unsold properties and funding issues, and the decrease in demand for commercial real estate is also a burden on the market.

In addition, the liquidity situation of securities companies and savings banks, which are the main funding sources for the PF market, has not yet been completely normalized, and the problem of construction companies' contingent liabilities becoming real is also emerging. Therefore, the PF market is expected to be reorganized around mega deals with relatively high stability. Large companies are expected to lead the market trend, and it is thought that the government's and market participants' strategic response to these changes is important.

Q10.

Last year, both the securities and F&M raised capital by issuing supplementary capital. Given that our capital ratios seem sufficient; could you clarify the specific reason for this capital raising? While proactive issuance is a positive approach, was there a particular necessity for it in this case?

Q11.

Our capital policy primarily considers forward PER as a key indicator. However, our PBR has now significantly exceeded 1x. While share buybacks improve EPS, they do not enhance BPS. In this context, wouldn't the effectiveness of share buyback and cancellation gradually diminish? Could you explain whether there will be any changes to our capital policy?

A10.

This is Jong-won Oh, the CRO of the holding company.

I will answer the question about the issuance of supplementary capital, and Vice Chairman Yong Beom Kim will answer the question about PBR.

Insurance has increased its capital in preparation for the upcoming discount rate change and the transfer of MG Non-life Insurance assets/liabilities, which are currently under review.

Although there is still time until the discount rate change and the transfer of MG Non-life Insurance assets/liabilities has not been confirmed, we have responded preemptively. F&M's K-ICS ratio at the end of 2024 is expected to be 248%.

Next, Securities has increased its capital to secure a buffer of 1,000% for the NCR management target. Securities plans to continuously expand its business, including the investment banking sector. We have decided that supplementary capital is necessary to maintain the NCR management target of 1,000% or more while expanding additional business. At the end of 2024, securities' NCR is expected to be 1,219%.

For this reason, I believe that net assets per share are not an appropriate standard for evaluating fair stock prices.

A11.

This is Yong beom Kim.

This year, we will proceed with the buyback and cancellation of shares using the fwd PER as an indicator. We will only use the PBR as a reference as an auxiliary indicator and will not reflect it in our decision-making. The reason is that the PBR does not indicate the appropriateness of the stock price.

For the PBR of 1x to be the appropriate stock price, the net asset value per share must be equal to the intrinsic value. However, when the intrinsic value is the present value of the sum of future earnings per share, it will be determined by the net profit per share, the growth rate of the net profit per share, and the required rate of return, which is the discount rate. It has nothing to do with the net asset value per share.

Let me give you a specific example.

In the case of F&M, the main profit drivers are the size and quality of CSM and the asset management return rate. F&M has an overwhelmingly high CSM to net asset ratio compared to other companies, and when measuring the size, it is strictly evaluated based on the best estimate.

In terms of quality, it sold policies with detailed underwriting standards, so it is expected to realize greater profits over time than peers with similar CSM sizes. The asset management return rate has also shown a significant gap over the past 10 years.

In the case of Meritz Securities, it has shown differences in the size and stability of profits compared to other companies with similar equity capital levels. This is because there is a gap in human competitiveness and capital allocation efficiency.

For this reason, I believe that net assets per share are not an appropriate standard for evaluating fair stock prices.

Individual Investors Q&A

※ From January 31 to February 10, we received questions from general shareholders through a pop-up on our website for 11 days. Out of approximately 54 questions, we selected the top five questions by gathering similar questions, and had the CEO and CRO of the holding company answer these questions directly. One of the questions was already answered in the institutional Q&A session, remaining four questions were answered in the individual Q&A session.

※ Comments from the host and operator have been omitted.

Q1.

The recent stock price increase has encouraged me as a shareholder. I believe that in addition to profit growth, the share buyback program has played a significant role in this upward trend.

In previous earnings calls, you mentioned conducting share buybacks up to a forward PER of 10x. However, from a long-term perspective, share buybacks remain a more effective shareholder return policy than dividends, even beyond this threshold. Do you plan to extend the share buyback range beyond a forward PER of 10x?

A1.

First and foremost, I'd like to clarify that a forward PER of 10x serves as a benchmark for deciding between share buybacks and cash dividends, not as a limit where share buybacks will cease. Even if the fwd PER exceeds 10 times, the proportion will decrease, but the buyback and cancellation of shares will continue.

That being said, if the forward PER surpasses 10x, it implies that the return on share buybacks falls below the required rate of return. In such a case, aggressively pursuing share buybacks would not be the most efficient approach from a shareholder value perspective, so we plan to adjust the proportion gradually.

Meritz intrinsic value line continues to trend upward. Our management team remains committed to enhancing per-share value. Therefore, even if today's stock price is considered fair, as time passes and intrinsic value rises, the stock may re-enter an undervalued range even if it remains at the same price level.

A considerable gap exists between the forward PER estimated by the market and our internal calculations. I can assure you that there is still ample room before reaching the 10x level.

Meritz decision-making is aligned with long-term EPS growth. Our management team is focused on steepening the upward slope of intrinsic value. Through this approach, we strongly hope to increase the proportion of long-term shareholders, fostering a true partnership with our investors.

Q2.

I understand that the current mid-term shareholder return policy is in place until the end of this year, and I am well aware of the details from previous disclosures and conference calls.

With that in mind, do you plan to announce a specific shareholder return policy for the three years following 2026?

A2.

We will provide details on the mid-term shareholder return policy for the period beyond 2026 at an appropriate time this year.

As mentioned in our previous earnings call, shareholder returns are not only a part of our capital allocation strategy but also hold independent significance for our shareholders. Therefore, as long as a shareholder return of over 50% does not hinder high-yield investment opportunities or large-scale M&A prospects, we believe it is reasonable to continue this approach in the future.

For example, even after 2026, if the return on share buybacks and cancellations or the required rate of return remains lower than the after-tax internal investment return, we will still consider maintaining a shareholder return of over 50%, provided that there are no funding constraints. However, in exceptional cases—such as when an unusual large-scale M&A opportunity arises and maintaining the required capital ratio becomes unfeasible with a shareholder return exceeding 50%—the shareholder return policy may be limited.

We are analyzing strict exception clauses for such special circumstances. Once our review is complete, we will provide further details through official disclosures and earnings call at an appropriate time.

Q3.

This is a question about the share buyback trust. If the share buyback trust period is to be maintained for one year as it is now, the remaining six months will be tied up in the trust after the six-month purchase period. In particular, the buyback in the second half of last year would fall under this category.

Do you have any will to terminate the trust and cancel the buyback shares before the trust period ends or proceed with direct buyback?

A3.

First, I will answer about the main response method in case of early completion of trust purchase.

In the future, if the trust purchase is completed before the end of the trust contract period, we will terminate it early to minimize the period tied to the trust.

For example, the maturity of the buyback trust set in September of last year is September 25th, but if the buyback is completed at the current speed, it is expected to be completed in March 25th. In this case, we plan to terminate it early with the approval of the board of directors at the time the buyback is completed.

Next, I will answer about whether to introduce the direct purchase for share buyback.

The trust and the direct purchase each have their own advantages and disadvantages depending on the period, method, cost, etc., and our company judged that the trust buyback was advantageous, so we proceeded with trust. However, as the enforcement ordinance and regulations related to share buyback were revised at the end of 2024, the gap between the trust and the direct share buyback method was greatly reduced. Moving forward, we will actively review the direct method of share buyback and select the most efficient method depending on the situation.

Q4.

In a short period, you have been ranked within the top 15 in KOSPI in terms of market capitalization driven by excellent management and shareholder return policy. Do you have a goal based on market capitalization?

For example, ‘catching up with KB Financial Group and Shinhan Financial Group, the largest domestic financial holding companies’. If so, the fastest way might be to look at the banking business. Are you not interested?

A4.

Although it is not guidance, I personally expect that we will achieve 3 trillion won in consolidated net income within 2~3 years.

For your information, Meritz does not push profit targets to affiliates. It is a method in which affiliates autonomously do their best based on performance-based principles with a minimum ROE of 10% or higher.

If we continue the buyback shares as we grow in net profit, the number of issued shares will decrease, and as a result, the growth rate of earnings per share will be higher than the growth rate of earnings, increasing the PER multiple.

KB and Shinhan have different main businesses, growth paths, and organizational characteristics. So I think we should do our best in our own path. Meritz wants to become a company like Berkshire Hathaway, which has a high proportion of long-term investors because of its long-term high returns and trust in management.

The End.