
2Q25 Financial Results

Earnings Call Transcript

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2Q25 Earnings Results

[Operator]

Good afternoon and thank you for attending today's call. We will now begin Meritz Financial Group's 2Q25 Earnings Call.

[MFG IR]

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

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

In today's call, we have prepared three sessions: 1) CEO greeting, 2) 2Q25 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 2Q25 IR session.

During the second quarter, we saw many changes both domestically and internationally. I hope today's IR session will be a good opportunity to review the Group's business activities over the last quarter.

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 2Q25.

We will start with the holding company.

We have 2Q25 highlights on page 3. The holding company's consolidated assets reached 124.2 trillion KRW, up 7.5% from the end of last year. Consolidated net profit for the first half of the year was 1,358.4 billion KRW, a 2.3% increase year-over-year. ROE stood at 26.3%, maintaining the highest level in the industry. Year-to-date EPS and BPS for the first half reached 7,390 KRW and 57,519 KRW, respectively, up 7.2% and 12.5% year-over-year.

Next, on page 4, we have the holding company's detailed business performance. Consolidated net profit for 2Q was 737.6 billion KRW, posting a slight year-over-year increase. Despite ongoing domestic and global uncertainties, including tariff policies originating from the U.S., all business segments—excluding insurance profit—reported improved earnings, leading to the highest-ever quarterly performance. Consolidated net profit for the first half of the year was 1,358.4 billion KRW, marking the highest half-year result.

Next, on page 5, we have the first half of 2025 results by major subsidiaries. Meritz F&M posted standalone net profit of 987.3 billion KRW, Meritz Securities 436.0 billion KRW, and Meritz Capital 73.0 billion KRW.

In Meritz F&M, investment profit rose significantly due to higher FVPL gains and a decline in provisions, but net profit decreased by 1% year-over-year as gains on long-term expected and actual variance declined following the end of the medical strike.

Meritz Securities continued its growth trend, driven by solid investment banking performance and improved trading income, recording net profit of 436.0 billion KRW, up 11.3% year-over-year. Despite the burden of high funding costs, Meritz Capital achieved net profit of 73.0 billion KRW, up 10% year-over-year, supported by improved corporate finance performance.

Next, on page 7. As of 2Q25, the holding company's ROE stood at 26.3%, and the double leverage ratio at 119.3%. We continue to maintain a high ROE and a stable double leverage ratio. Year-to-date EPS for the second quarter was 7,390 KRW, and BPS was 57,519 KRW, showing a steady increase in per-share value.

Next, on page 8, we have the group's real estate exposure and credit cost. At the end of 2Q25, the group's real estate exposure stood at 27.5 trillion KRW, with 23.0 trillion KRW in domestic and 4.5 trillion KRW overseas. Of this, senior loans accounted for 90%, and the average loan-to-value (LTV) ratio was around 46%, indicating a portfolio of high-quality asset.

Net provisions and reserves set aside in 2Q were 46.4 billion KRW, and impairment losses on beneficiary certificates amounted to 0.9 billion KRW, both down year-over-year.

In July, partial sales of Homeplus store led to loan repayments, reducing total loan receivables to approximately 1,165.2 billion KRW. As a result, 10.5 billion KRW of the loan loss provisions and reserves was reversed.

Lastly, on page 9, we present the 2Q progress on our corporate value enhancement plan. As of the end of 2Q, the forward PER stood at 8x, and the shareholder buyback yield was 12.5%, exceeding our required rate of return of 10%. We continue to pursue a shareholder return policy centered on share buybacks. Since the implementation of our shareholder return policy in 2023, cumulative TSR has reached 172.2%.

On March 26, we executed a 550 billion KRW share repurchase trust agreement, and as of the end of July, we had acquired 4.07 million shares worth approximately 468.7 billion KRW. We will continue to implement our shareholder return policy in accordance with the standards disclosed.

Next, moving onto the performance of our major subsidiaries.

First, Meritz F&M on page 14.

In 2Q25, Meritz F&M posted standalone net profit of 524.7 billion KRW, up 3.5% year-over-year. Although insurance profit declined due to the normalization following the end of the medical strike, investment profit surged—driven by higher FVPL gains—resulting in the highest quarterly earnings on record. Net profit for the first half reached 987.3 billion KRW.

In 2Q, insurance profit was 364.4 billion KRW, down 24.6% year-over-year. Despite improvements in sales and profitability, the main factor behind the decline was the contraction in gains on long-term expected and actual variance after the end of the medical strike. In contrast, investment profit reached 342.7 billion KRW, up 77.4% year-over-year, driven by gains from bond replacement trades and an increase in FVPL income.

Next is the breakdown of earnings by segment. In the long-term insurance, despite the effects from the market after the phase-out of the zero-surrender-value product, growth continued, driven by the discontinuation of the caregiver daily allowance coverage—a representative loss-making coverage. In line with our strategy of avoiding sales of unprofitable products and focusing solely on customers and the market, Meritz F&M has rapidly expanded its market share in the long-term insurance market.

New business premiums in long-term insurance averaged 9.9 billion KRW per month, up 5% year-over-year. The focus on overall value creation is leading to simultaneous growth in both sales and profitability.

In auto insurance, losses continued due to a decline in sales and an increase in accident rates. In contrast, commercial insurance achieved its highest-ever quarterly profit, despite large-loss events such as the Kumho Tire fire, supported by sustained premium growth and the use of reinsurance to mitigate the impact of large claims.

Page 15 is the CSM movement and the new business CSM multiple. At the end of 2Q, the CSM balance stood at 11,248.2 billion KRW, up approximately 81.1 billion KRW from the previous quarter. Quarterly new business CSM amounted to 373.1 billion KRW, with interest accretion adding 90.3 billion KRW, while CSM adjustments reduced the balance by 95.5 billion KRW. Quarterly CSM amortization was about 286.8 billion KRW. The CSM multiple for 2Q25 was

approximately 12.3x, and for long-term insurance, 12.4x, both showing an improving trend year-over-year.

Please refer to page 17 and 18 for investment yield and K-ICS ratio. The year-to-date investment yield for 2Q was 4.5%, and the preliminary K-ICS ratio stood at 238.9%.

Next is Meritz Securities on page 19.

Consolidated net profit for 2Q25 was 256.1 billion KRW, up 5.2% year-over-year, and first-half consolidated net profit rose 20% to 443.5 billion KRW. Excluding Meritz Capital, standalone net profit for 2Q was 205.3 billion KRW, improving 6.9% year-over-year, while first-half standalone net profit reached 436.0 billion KRW, up approximately 11.3% year-over-year.

Despite significant changes in domestic and global conditions in 2Q, including tariff measures and the presidential election, we maintained year-over-year earnings improvement through efficient capital deployment and proactive market responses.

On page 20, shows operating revenue by business. In 2Q, investment banking profit declined 14% year-over-year due to a reverse base effect from the expansion of new fee income in the second quarter of last year. However, we maintained quarterly profit above 100 billion KRW for three consecutive quarters, supported by the execution of various new deals. Based on high-quality assets, the net interest income improved, and trading income continued to increase with steady growth in assets under management and proactive market engagement.

Although brokerage commission revenue declined year-over-year due to promotional impacts, the number of clients and client assets increased, enabling wealth management performance to maintain its upward trend.

Next, on page 24, we have the risk management indicators. The consolidated net capital ratio (NCR) stood at 1,152%. Although net operating capital increased, total risk-weighted assets grew at a faster pace, resulting in a decline from the previous quarter. The ratio of substandard-and-below loans was 5.9%, showing a slight improvement compared to the first quarter.

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.

My first question relates to the government's tax reform proposal announced in July, specifically regarding the policy changes on capital reduction dividends. Given that the market views Meritz as one of the most proactive listed companies in implementing such dividends, I would like to understand whether there will be any changes to your dividend policy or related shareholder policies following the tax reform. How is the company considering these potential impacts, and could you share your perspective to help investors assess the implications?

Q2.

My second question concerns the Group's overall exposure to Homeplus. There have been various developments, including a pre-approval M&A currently in progress. Could you please provide an update on the status of the Homeplus exposure and rehabilitation process? Although briefly mentioned in the slides, I would also appreciate a summary of the financial impact, such as provisioning.

A1.

This is Yong Beom Kim, CEO of the holding company. I will address the question on the tax reform.

To begin with, there is no reason to change our existing policy.

Meritz's shareholder return policy is based on decision-making that prioritizes general shareholders. When comparing share buyback with cash dividends, we take into account the tax impact based on the perspective of general shareholders.

The capital reduction dividend taxation under the new tax reform applies only to large shareholders. Therefore, the current tax-exempt status for general shareholders remains unchanged, and Meritz's shareholder return policy—determined based on general shareholders—will not be affected.

We anticipate that many individual investors may have questions regarding these dividend tax changes. To assist their understanding, after this conference call we will post three representative examples on our website's FAQ section. We hope this will help address those inquiries.

Lastly, the mid-term shareholder return policy announced in November 2022 marks its third year this year. At the upcoming 3Q earnings presentation in November, we will disclose and provide details of our next shareholder return policy.

A2.

This is Jong Won Oh, CRO of the holding company.

I will address the question regarding Homeplus.

First, on the progress. According to the evaluation report released in June, Homeplus's going-concern value was assessed to be lower than its liquidation value. Accordingly, as you mentioned, Homeplus applied for a pre-rehabilitation M&A process—selling the company before formal court approval of the rehabilitation—and the court approved this procedure.

Under this process, the appointed sale advisor, PwC, is currently seeking potential buyers. We expect the M&A direction to become clearer around late September.

We believe our collateral coverage is sufficient and will continue to monitor the M&A progress and the controlling shareholder's self-rescue efforts, responding in a way that best secures our claims.

On collateral recovery - The sale of the Sinnae store was completed on July 15th. This property was part of our trust collateral and recoverable regardless of the rehabilitation plan. Under the deal structure, 51.5 billion KRW was repaid, reducing the Group's outstanding Homeplus loan balance to 1,165.2 billion KRW.

Regarding the financial impact - In 2Q, we standardized provisioning criteria across affiliates to the most conservative standard, resulting in 5.3 billion KRW of reserves being reclassified as provisions. As of the current balance, we have 225.1 billion KRW in reserves and 23.0 billion KRW in provisions.

We assess that the value of our collateral assets is sufficient to cover principal and interest repayments, and the likelihood of additional provisioning is very low. In fact, we believe there is a higher probability of reserve and provision reversals following future collateral sales. For example, as mentioned earlier, the Sinnae store sale is expected to result in approximately 10.5 billion KRW of reversals in 3Q, when the repayment effect is reflected.

Q3.

Before my questions, I would like to first express my appreciation to the Meritz management team for their leadership over the years. I have two questions. First, when our stock price showed relatively weak performance recently, you increased the daily share buyback amount. If the stock price enters a certain range again in the future, would you consider further increasing buyback? Also, could you share, to the extent possible, the criteria you use for additional buyback? Lastly, how long will the current increased daily buyback amount be maintained, and does this imply an increase in the total share buyback volume for 2025?

Q4.

Secondly, with the downturn in the real estate market, it seems that the number of deals favorable to Meritz has been decreasing. In last year's 2Q conference call, you mentioned three conditions for a rebound in the PF market, expecting such a rebound to be possible only after the first half of 2025. Could you provide an update on the current situation, and share the direction of the company's real estate deal strategy going forward?

A3.

This is Yong Beom Kim, CEO of the holding company.

I will address the question on share buyback.

We are carrying out its share buyback on an equal daily purchase basis. If the share price moves outside what we consider the appropriate range, we adjust the scale of purchases accordingly.

At the end of June, we determined that the share price had entered a significantly undervalued range, and decided to increase the total annual share buyback volume. Based on this decision, we expanded the daily buyback amount, which will continue until the increased total is fully utilized. However, if the share price rises sufficiently and we conclude that the undervaluation

has been resolved, we may revert the daily buyback amount to the previous level even before the increased total is exhausted.

If the stock price enters a significantly undervalued range again, we will follow a similar decision-making process as in late June to consider additional purchases. Regarding our criteria, I can share that we use an internally calculated forward PER, but we cannot disclose the exact figure as it may distort the stock price.

As a result of the current daily buyback increase, the ongoing share buyback trust agreement is expected to be completed earlier than planned. Thereafter, we will continue buybacks under a new trust agreement in line with our annual shareholder return policy. Meritz Financial Group will continue to actively follow undervaluation periods to buyback shares at attractive prices and implement a disciplined buyback policy to enhance shareholder value.

A4.

This is Hee Moon Choi, Vice Chairman of the holding company. In short, as of the first half of 2025, while there are some signs of stabilization in the real estate PF market, we do not see a full recovery in sentiment.

In last year's 2Q call, I mentioned that a rebound in the PF market would require three conditions: (1) resolution of unsold housing inventory and improved liquidity for construction companies, (2) cost improvements, and (3) a supply-demand balance in favor of demand. Let me provide an update on each.

First, unsold housing in the provinces must be resolved and developers' cash flows improved to restore confidence in presales. As of June, nationwide unsold housing units have declined for five consecutive months. In particular, provincial unsold units decreased by about 9% year-on-year in the first half, showing signs of recovery. However, provincial apartment prices have fallen for 55 consecutive weeks, and liquidity for construction companies continues to deteriorate, with issues such as delayed project starts, postponed presales, and rising contractor risks—delaying the recovery of confidence.

Second, cost improvements are needed through lower financing costs from interest rate cuts, inflation stabilization, and more active distressed property sales. This condition has improved. The base rate was cut twice, in February and May, lowering financing costs. Slowing inflation has eased construction cost pressures, and more active distressed property sales have driven land prices lower.

Third, demand must outpace supply. This condition is also being met. In the first half, housing starts and presales fell by about 18.9% and 39.6% year-on-year, respectively. Apartment completions in 2025 and 2026 are also expected to drop sharply. Meanwhile, home-buying sentiment is recovering rapidly, particularly in Seoul, where first-time homebuyers in July increased by over 20% from the previous month. Overall, supply shortages are deepening while demand is recovering.

In summary, two of the three conditions have improved, but the first—restoration of presale confidence—remains weak, meaning a PF market recovery will take more time.

Against this backdrop, our approach is as follows:

1. Focus on deal contents rather than quantity, making selective investments.
2. Expand fee-based business, such as structuring and simple arrangement, to improve capital efficiency.
3. Diversify the portfolio beyond PF into alternative investments and low-IB areas, seeking opportunities centered on corporate lending deals.

In conclusion, the current PF market environment prioritizes soundness over scale. We will maintain a conservative approach, leveraging our structuring capabilities to pursue stable earnings growth.

Q5.

When explaining F&M results, you mentioned that insurance profit declined due to a sharp decrease in actual-to-expected variance gains, while investment profit benefited from bond replacement trades. Could you share whether this trend is likely to continue into the second half? Specifically, do you expect disposal gains from investment assets and an investment-profit-driven performance to persist? Also, were there any notable one-off factors this quarter?

Q6.

My second question is on the loss ratio. I understand that the large Kumho Tire claim had relatively little impact on you compared to peers. However, with the recent heat waves and heavy rains, an increase in the loss ratio seems likely. Were there any special factors affecting the 2Q loss ratio, and could you also share your outlook for 3Q?

A5.

This is Joong Hyun Kim from F&M. Let me address the questions on insurance and investment profit.

The decline in insurance profit this year is primarily due to a drop in actual-to-expected variance gains. Last year, the prolonged medical strike drove the loss ratio below expectations, resulting in KRW 157.8 billion of actual-to-expected gains in 2Q. This year, with the normalization of medical services, the 2Q figure dropped to KRW 50.7 billion—about KRW 107.1 billion lower year-on-year—reflecting the higher loss ratio compared to last year.

On the other hand, investment profit rose by approximately KRW 149.5 billion year-on-year to KRW 342.7 billion in 2Q. This significant improvement was driven by gains from long-term bond replacement trades and valuation gains from strong domestic and overseas equity markets.

In the second half, replacement trades may continue depending on government bond yields. However, these trades are conducted for ALM purposes, and the occurrence of gains cannot be

predicted. Meanwhile, increasing gains from equities and other assets held are expected to be achievable.

A6.

Continuing with the loss ratio:

In 2Q, the loss ratio for commercial insurance and the risk loss ratio for long-term insurance were 61.9% and 90.3%, respectively, both improving from 1Q. Auto insurance loss ratio was 82.6%, roughly in line with 1Q. Although the total loss amount from the Kumho Tire accident was large, our share was only 5%, limiting the actual loss to about KRW 2.8 billion.

Looking ahead, abnormal weather conditions such as heat waves and heavy rains could pressure loss ratios in certain lines from 3Q onwards. By line:

Auto insurance- We expect a year-on-year increase in the loss ratio due to higher accident frequency and flood claims from the heat waves and heavy rains. In July alone, the accident rate rose more than 10% compared to the historical average.

Commercial insurance- Excluding large claim volatility, we expect loss ratios to remain at similar levels to last year. Recent heat waves and heavy rains had minimal impact here. Since major natural disasters in 2022—such as the August Gangnam flooding and the September Typhoon Hinnamnor flooding of the POSCO Pohang plant—we have built and continually enhanced our proprietary wind and flood risk map. Since 2023, this has been actively used in underwriting, and risks are appropriately hedged through reinsurance.

Long-term insurance- We expect a slight year-on-year increase, driven not by weather events but by the natural effect of the medical strike impact rolling off.

In conclusion, the recent weather effects are concentrated mainly in auto insurance, while commercial and long-term insurance loss ratios are expected to maintain a normal seasonal pattern.

Q7.

I have a question regarding Fire's sales side. It seems that our GA market share has been increasing recently, and there has been a steady flow of news about other insurers lowering their pricing interest rates, suggesting ongoing changes in the overall sales environment.

Also, as you mentioned earlier, competition in coverage areas such as nursing care riders and similar products appears to be intensifying. How do you view the competitive landscape for long-term new business, and how are we responding to these dynamics?

Q8.

Secondly, regarding the IFRS 17 expected loss ratio, I understand there has been news that the financial authorities intend to establish a standard. Could you update us on the current status of this process, and, once a standard is set, how you expect it might affect us and other companies?

In addition to loss ratio, there has also been talk about the target expense ratio, where differences among companies seem quite pronounced. What is your view on the likelihood of guidelines being established for these areas overall?

A7.

This is Joong Hyun Kim from Meritz F&M. Let me address the question on sales dynamics.

Since April this year, long-term new business sales have rebounded visibly across all channels, including GA. The loss-making price competition in no-surrender value products—which had been intense—has partially normalized following the introduction of the no-surrender value product guidelines in April, and we are now actively participating in the competition. Our guiding principle remains *maximizing total value*. If market margins are at an appropriate level, we will continue to push sales volumes to their maximum potential.

For reference, changes in our assumed interest rate are driven primarily by long-term interest rate trends rather than sales considerations. Our current assumed interest rate for long-term insurance is 2.75%, in line with recently reduced levels at other competitors. We will consider adjustments in step with long-term rate movements.

Competition in long-term new business remains intense, but its focus and structure appear to be evolving. The focus is shifting gradually from price cuts toward enhanced coverage. In line with this, we aim to introduce new products and riders every month that balance market appeal with profitability.

Structurally, the market is increasingly divided between companies with strong capital bases and those without. Given that each new policy sold increases capital requirements, insurers with weaker capital positions are finding it harder to expand new business—particularly in long-duration products.

In summary, we will continue to focus on increasing total value. With adequate profitability and sufficient capital strength, we will work to maximize sales volumes in protection-type products across all channels.

A8.

On the topic of guidelines: Discussions are currently underway to reform the framework for long-term insurance expected loss ratio assumptions. These discussions are still at an early stage, so it is difficult to predict the outcome. However, we expect that guidelines will be established in a way that improves the comparability of loss ratio assumptions across the industry, and whichever direction the standard takes, we anticipate the financial impact on our company will be relatively positive.

Discussions on expense ratio assumptions are only just beginning. We hope that any future standards and principles will accurately reflect differences in cost efficiency between companies.

Q9.

On the securities side, you were recently selected as the preferred bidder for the SK On LNG asset securitization deal. Compared to global PEs and other securities firms, what factors enabled you to present a competitive interest rate? Also, if possible, could you share the level of profit or margin the Group expects to secure from this deal?

Q10.

In addition, it appears you have recently established a Corporate Finance Division and have been adding personnel. Could you share the strategic direction for growth in this area going forward?

A9.

This is Jong Min Kim from Meritz Securities. Let me address the question regarding our selection as the preferred bidder for the SK Innovation deal.

Regarding pricing competitiveness in terms of interest rates versus global PEs, it is difficult for us, as a bidder, to know the exact terms offered by others. What I can say is that our proposal was differentiated in terms of the underlying assets, deal structure, and maturity profile, making a direct price comparison challenging. For this reason, the client did not select the preferred bidder solely based on the interest rate level.

We believe our selection reflects Meritz's accumulated experience and expertise in the corporate finance market, enabling us to accurately identify the client's needs and propose both appropriate pricing and tailored solutions. It was also the result of timely communication and collaboration between related divisions within the company to deliver the optimal solution to the client.

We focused on the value of SK Innovation's vertically integrated LNG value chain and leveraged our strength in rapid risk-return profile analysis to propose the transaction structure.

In addition, by coupling this LNG asset securitization transaction with an SK On PRS investment, we were able to create a proposal that met the needs of both SK Group and Meritz.

As for the margin level, it is highly variable and uncertain depending on market conditions, so it is difficult to provide specific figures. However, we believe the successful execution of this large-scale deal will strengthen our growth alongside corporate clients and expand our sourcing capabilities, ultimately contributing positively to the profitability of our corporate finance business.

A10.

On the strategic direction for corporate finance growth:

As we have consistently stated, our goal is to maintain our strengths in the real estate segment while strengthening our competitiveness in corporate finance to diversify our IB business portfolio.

The growth direction for corporate finance is rooted in Meritz's DNA as a solutions provider—closing large-scale deals that address the needs of corporate clients, using those deals as a foundation to build strong, trust-based relationships, and ultimately expanding into traditional corporate finance areas such as DCM and ECM.

More specifically, we aim to execute large-scale transactions that provide optimal solutions for corporate clients seeking business structure or financial structure reorganization. Building on the trust established through these transactions, we will secure additional mandates for traditional corporate finance deals, with the ultimate goal of providing comprehensive IB solution packages.

To support this strategy, in the first half of this year we established the Corporate Finance Division, ECM Solutions Division, and Integrated Finance Division, and recruited highly capable professionals with extensive experience, completing our initial organizational setup. The recent SK deal is a result of close collaboration between newly joined talent and our existing teams, generating meaningful synergies.

Q11.

First, a question on Fire. In this quarter, onerous contract costs increased, while other operating expenses declined significantly year-on-year. Could you explain if there were any special factors behind these two movements?

Q12.

Secondly, on Securities: I saw in the media that a dedicated digital asset unit was recently established. With market interest in digital assets increasing, what kind of new businesses is Meritz Securities, as a regulated financial institution, planning to develop and pursue in this area? Could you share your strategic direction?

A11.

This is Joong Hyun Kim from Meritz F&M. Let me address the question regarding Fire's results.

Onerous contract costs increased by about KRW 60 billion year-on-year this quarter. Last year, a large volume of 3rd- and 4th-generation medical indemnity renewals were concentrated, and as renewal premiums rose, approximately KRW 30 billion of onerous contracts were converted into profitable contracts. This reversal reduced costs in the prior year. In contrast, such reversal factors were lower this year.

Other operating expenses decreased by about KRW 50 billion, mainly due to the special retirement costs booked in June last year.

A12.

This is Won Jae Jang from Meritz Securities. Let me address the question on digital assets.

We have established a Strategic Planning Team under the Management Support Office, which will be responsible not only for traditional financial business but also for driving new business initiatives in the digital asset space.

As various virtual assets, including stablecoins, are beginning to influence the real economy—particularly the financial sector—securities companies are seeing new business opportunities emerge. For example, potential areas include the issuance and management of stablecoins, prime brokerage services for virtual assets, market-making and operations for security token offerings (STOs), and credit provision secured by virtual assets.

Given that the government is accelerating the development of laws and regulations related to digital assets, we will actively identify and pursue business opportunities within the regulatory framework where we can leverage our strengths.

Individual Investors Q&A

※ Comments from the host and operator have been omitted.

Q1.

Regarding Meritz MTS, there appear to be some user interface inconveniences, and recently there have also been issues related to the stability of stock order processing. Could you share your plans for management and investment going forward to improve user convenience and server reliability?

A1.

This is Won Jae Jang from Meritz Securities. First, I would like to once again sincerely apologize to our customers who experienced inconvenience with stock orders. All of our employees are committed to making every effort to prevent a recurrence.

Since March, we have formed a task force in collaboration with an external consulting firm to ensure stable service operations. We analyzed the root causes of the issues, reviewed operating processes, and checked our IT infrastructure to prevent such problems in advance. After more than three months of thorough analysis, we identified and implemented corrective measures, and are making additional investments of over KRW 20 billion to strengthen real-time monitoring systems and enhance IT infrastructure.

To improve MTS user convenience, we are preparing to launch a new trading platform in the first half of next year. This will offer customers a completely new set of content and investment experiences beyond the traditional trading-focused MTS functions.

We are building the industry's first Amazon Cloud-based platform, which will provide access to the global stock community Stocktwits, Winston's finance-specialized AI features, and the investment community of a leading U.S. fintech brokerage firm, all within our platform. Through diverse global partnerships, we aim to connect Korean investors with real-time U.S. investment trends and communities, and to transform the global investment culture with an AI-powered investment platform.

Q2.

I understand that you have applied for a license to issue promissory note (short-term notes). What do you think is the likelihood of obtaining approval within the year? If approved, how do you plan to operate the funds, and what is your expected return?

A2.

This is Jong Min Kim from Meritz Securities. Regarding our application for a promissory note issuance license and our operating plans upon approval:

Since this business requires regulatory approval and the review is still in its early stages, it would not be appropriate for us, as the applicant, to comment directly on the likelihood or timing of approval.

That said, as demonstrated by our past execution of large-scale deals with Lotte Group, Korea Zinc, Celltrion, and SK Group, Meritz has consistently provided timely and effective solutions that meet corporate clients' needs. We also have the capabilities and potential to contribute meaningfully to capital market revitalization, which aligns with the new government's policy direction. For these reasons, we are preparing for the review process with strong expectations for approval.

On the funding side, our strategy is to provide stable products to retail customers and diversify our funding sources. On the investment side, we plan to allocate funds raised via promissory note primarily toward pure corporate finance and venture capital in line with the fundamental purpose of capital market revitalization—significantly exceeding the regulatory requirement. Current regulations allow a maximum of 30% in real estate and require at least 50% in corporate finance; we intend to minimize real estate exposure and focus most of the allocation on corporate finance and venture capital assets.

Through this, we aim to achieve both our business goal of diversifying our IB operations and the government's policy goal of revitalizing capital markets. The expected return on the promissory note business will vary depending on capital market conditions, but we estimate a

funding cost of around 3%, an investment yield of around 4.5%, and an operating margin of approximately 1.5 percentage points.

The end.