3Q26 Financial Results

Earnings Call Transcript

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3Q26 Earnings Results

[Operator]

Good afternoon and thank you for attending today's call. We will now begin Meritz Financial Group's 3Q26 Earnings Call.

[MFG IR]

Good afternoon. This is Sang-hoon Kim from the IR team of Meritz Financial Group.

We sincerely appreciate your participation in our 3Q26 Business Results presentation despite your busy schedules.

Today's conference call will proceed in the following order: 1) CEO greetings, 2) Presentation of 3Q26 business results, 3) Q&A session. The Q&A session will consist of two parts: questions from analysts and institutional investors, followed by pre-submitted questions from retail shareholders.

First, we have a greeting from Vice Chairman and CEO of our group, Yong Beom Kim.

[MFG CEO]

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

I would like to sincerely thank all of you for joining our 3Q26 Business Results conference call.

We hope today's IR conference call provides a meaningful opportunity to review the Group's management performance.

Vice Chairman Hee-Moon Choi, the CEOs of Fire & Marine Insurance and Securities, as well as the Group CRO, are also present today.

Following the presentation, we will provide candid and detailed responses during the Q&A session.

Thank you.

[MFG IR]

Thank you, Vice Chairman Kim, for your opening remarks.

We will now begin the presentation of the Group's 3Q26 business results.

First, the holding company results.

Slide 3 presents highlights of 3Q26 earnings. The holding company's cumulative consolidated net income for 3Q reached KRW 1.9621 trillion, a 3.2% decrease year-over-year. ROE stood at 23.5%, and consolidated total assets expanded by 8.1% compared to the end of last year, reaching KRW 146.5 trillion. Cumulative 3Q EPS and BPS came in at KRW 11,491 and KRW 68,284, up 3.5% and 16.0% year-over-year, respectively.

Next, Slide 4 presents detailed financial results of the holding company. Consolidated net income for 3Q26 recorded KRW 490.5 billion. Despite improved insurance profit and outstanding trading performance at Securities, 3Q net income declined 26.6% year-over-year due to lower investment profit at Fire & Marine Insurance amid stock market volatility, as well as higher SG&A expenses driven by business expansion at Securities.

Moving on to Slide 5. Looking at cumulative 3Q separate net income for major subsidiaries: Fire & Marine Insurance recorded KRW 1.3528 trillion, Securities posted KRW 694.5 billion, and Capital recorded KRW 121.9 billion.

At Fire & Marine Insurance, insurance profit rose 7.6% on the back of stable CSM growth and improved results in general and auto insurance, but net income fell 6.8% year-over-year due to weak investment profit, including a decline in interest income.

Securities reported a net income of KRW 694.5 billion, up 17% year-over-year, driven by performance improvements in the S&T and Retail divisions. Capital achieved a net income of KRW 121.9 billion, a 23.6% year-over-year increase, propelled by improved corporate finance results, including higher dividend income from investment assets.

Next, Slide 7 presents financial ratios. As of 3Q, the holding company's ROE was 23.5%, and the double leverage ratio stood at 129.7%. We continue to maintain an industry-leading ROE alongside a stable double leverage ratio. Per-share value has grown steadily, with cumulative 3Q26 EPS at KRW 11,491 and BPS at KRW 68,284.

Next, Slide 8 presents group real estate exposure and provisioning status.

As of the end of 3Q26, the group's real estate exposure stood at KRW 29.8 trillion—KRW 26.2 trillion domestically and KRW 3.6 trillion overseas. Senior loans account for 89% of this total, with an average LTV of approximately 46%, demonstrating that these assets continue to be managed around high-quality investments.

Net additions to provisions and reserves for the third quarter totaled KRW 410.6 billion. This reflects the results of the project financing (PF) feasibility assessment conducted at the end of the quarter, as well as preemptive additional provisioning to manage the PF coverage ratio, which resulted in an increase of approximately KRW 330.0 billion in credit loss reserves at Fire & Marine Insurance.

Finally, Slide 9 presents 3Q26 status on the implementation of the Corporate Value-Up Plan.

As of the end of September, the forward P/E ratio on Bloomberg was 6.6x, yielding an expected return on share buybacks and cancellations (1 / Forward P/E) of 15.2%. Because this exceeds our required rate of return of 10%, we are maintaining our shareholder return policy centered on share buybacks and cancellations. Cumulative TSR since the announcement of the shareholder return policy in 2023 stands at 204.5%.

We have completed all acquisitions under the KRW 700 billion treasury share trust agreement signed in March. Under the new KRW 500 billion treasury share trust agreement signed in August, we have acquired 1.14 million shares (worth approximately KRW 147.5 billion) as of the end of October.

In line with our disclosed principles, we will continue to execute a transparent shareholder return policy moving forward.

We will now turn to the performance of our key subsidiaries.

First, Slide 12: Fire & Marine Insurance.

3Q26 separate net income for Fire & Marine Insurance recorded KRW 328.5 billion, a decrease of 29.2% year-over-year. While insurance profit increased on the back of continued CSM growth and improved results in the general and auto insurance segments, investment profit declined significantly due to stock market volatility.

Insurance profit recorded KRW 404.7 billion, up 34.9% year-over-year. Experience variance profit improved due to lower losses following the conversion of manual therapy to managed benefit category and a decrease in cancer diagnosis benefits. In addition, CSM amortization increased on the back of stable CSM growth from the advanced actuarial assumptions reflected in 2Q, raising insurance profit by KRW 104.6 billion year-over-year.

Investment profit stood at KRW 39.4 billion, down 87.9% year-over-year. Investment profit fell sharply due to valuation losses on equities amid stock market volatility and lower interest income resulting from an increase in non-performing assets.

Next is the 3Q performance by segment. The long-term protection market is experiencing negative growth due to factors such as the guidelines on advanced actuarial assumptions. Contrary to these market trends, we continue to deliver high-quality sales growth accompanied by profitability. Our protection sales grew 6.2% year-over-year, recording a monthly average of KRW 11.8 billion.

Auto insurance remained profitable for a second consecutive quarter as driving volume and accident rates declined due to high oil prices. General insurance recorded solid results for the third consecutive quarter, supported by steady growth in high-quality sales despite the impact of certain large-scale claims.

Next, Slide 13 presents CSM movement and new business CSM multiple. As of the end of 3Q, total CSM reached KRW 12.2578 trillion, an increase of KRW 137.0 billion quarter-over-quarter. New business CSM was KRW 422.0 billion and interest expense was KRW 98.0 billion, while CSM adjustments came to KRW 57.0 billion and amortization was KRW 326.1 billion. The 3Q CSM multiple stood at 11.8x, and 12.3x on a cumulative basis, continuing a stable trend.

Please refer to Slides 15 and 16 for investment yield and the K-ICS ratio. Cumulative investment yield for 3Q recorded 5.0%, and the provisional K-ICS ratio stands at 225.7%.

Next is Securities.

Moving on to Slide 17. Consolidated net income for 3Q26 recorded KRW 206.4 billion, up 3.2% year-over-year. Separate net income was KRW 172.6 billion, an increase of 9.5%. Despite a decline in corporate finance fee income, we delivered solid quarterly results driven by robust interest income and trading performance that actively capitalized on market volatility.

Slide 18 shows operating revenue by division. In 3Q26, investment banking income declined slightly year-over-year due to lower fee income and a high base effect from gains on investment asset recoveries last year, while interest income continued its growth trend backed by solid interest income, despite increased funding costs caused by rising interest rates. The trading division led earnings growth by delivering outstanding performance despite heightened market volatility. The brokerage division continued its year-over-year improvement on the back of higher trading revenue, while the wealth management division saw revenue decline due to a high base effect from certain fund performance last year, despite an increase in wrap account revenue.

Next, Slide 22 presents risk management indicators. The consolidated net capital ratio (NCR) declined due to an increase in risk amount but remains at a solid level of 1,605%. The non-performing loan (NPL) ratio edged down to 3.9%.

Please refer to the presentation materials for Meritz Capital and other specific indicators.

Institutional Investors Q&A

※ Comments from the host and operator have been omitted.

Q1.

Regarding our promissory note business, considering the recent competitive interest rate environment, it seems that securing profitability may be challenging. Could you share guidance on our future funding size, sales channels, and expected margins?

Q2.

With stock market volatility being so high this quarter, it appears that Fire & Marine Insurance's investment profit was considerably affected. Could you explain the factors behind the decline in investment profit? Also, the increase in credit loss reserves was quite large—could you explain whether this reflects heightened default risk in real estate-related loans, or whether it arose from other alternative investments?

A1.

This is Jong-Min Kim, CEO of Securities. I will address the question regarding promissory notes.

I will first answer the questions you asked and then provide some additional explanation.

First, regarding funding size, our initial target is to reach an outstanding balance of KRW 4 trillion and an average balance of KRW 2 trillion by the end of 2027. With liquidity management and securing high-quality, stable corporate finance assets as our top priorities, we plan to gradually expand the scale.

In terms of sales strategy, we will primarily target retail mass-market clients. While avoiding excessive interest rate competition, we intend to pursue both customer satisfaction and rationalized funding costs by offering customized special products and applying differentiated rates to new and high-quality clients.

Next, as we mentioned at our previous IR, the expected margin is approximately 150bp. Accordingly, we expect to generate additional pre-tax income in line with the annual average issuance balance.

While there are concerns such as managing issuance interest rate risk in a high interest rate environment, we plan to maintain profitability by keeping a high proportion of liquid assets that can be converted to cash at any time, while actively investing in high-quality corporate finance assets based on Meritz's extensive experience and expertise in providing large-scale corporate finance.

Furthermore, beyond the direct operating margin, we expect to create synergies across business divisions. As a key anchor product offering competitive rates relative to bank deposits, promissory notes will broadly attract retail funds, while on the corporate finance side, large-scale, readily available liquidity will strengthen our competitiveness in winning high-quality deals.

A2.

This is Jong-Won Oh, CRO of Fire & Marine Insurance. I will address investment profit and credit loss reserves.

First, investment profit. The main cause of the decline in 3Q investment profit was valuation losses on equity assets due to the downturn in the domestic stock market. Losses from equity assets recognized in P&L amounted to KRW 69.2 billion. Focusing on long-term investment value rather than short-term market fluctuations, we plan to continue expanding our equity investments.

Next, credit loss reserves. Non-performing PF loans increased by approximately KRW 300.0 billion, from around KRW 650.0 billion at the end of June to KRW 950.0 billion at the end of September. Credit loss reserves increased by approximately KRW 330.0 billion quarter-over-quarter. This increase was largely driven by our full-scale move to recover existing PF projects, rather than any particular deterioration in market conditions.

Until now, we had extended maturities in consideration of each project's potential for normalization, providing ample time for pre-sales or disposals to take place at prices that would allow mezzanine and subordinated lenders as well as equity investors to recover their funds. In fact, many projects were normalized during this period, enabling the recovery of funds not only for senior lenders but also for mezzanine and subordinated lenders.

However, some projects can only be sold at lower prices. At those prices, senior loans can be recovered, but mezzanine and subordinated lenders and equity investors would incur losses, making consensual sales difficult. Judging that we have provided sufficient time for the normalization of these projects, we have been actively pursuing recovery as a senior creditor since 2026.

Specifically, rather than extending maturities further, we are declaring defaults, securing disposal rights under the contracts, and pursuing public sales and other measures. In this process, delinquencies arise and the loans are classified as non-performing under the relevant criteria, which is why non-performing PF loans and credit loss reserves increased ahead of actual recovery.

We are currently actively pursuing various recovery measures, including sales, auctions and public sales, and the promotion of pre-sales. In 4Q, as recovery of existing non-performing PF loans progresses, we expect the total balance to shrink back to the level at the end of 2Q.

To summarize, the decline in 3Q investment profit was mainly due to valuation losses on equity assets, and we plan to continue investing in equities in consideration of long-term investment value.

The increase in non-performing PF loans is a temporary phenomenon that arose as we began full-scale recovery as a senior creditor, and we expect the balance of non-performing assets to decrease again as actual recovery progresses.

Q3.

You launched a new platform in 3Q. Could you share its initial performance and plans for further expansion?

Q4.

Overseas stock trading volume appears to have risen considerably. I am curious about your target customer retention rate after the promotion ends. Could you also share what strategies you will deploy to expand your brokerage market share going forward?

A3.

This is Won-Jae Jang from Securities.

First, I will address the performance and expansion plans for our new platform, 'MOUM'.

Two months after launch, the number of customers who have installed the 'MOUM' app stands at approximately 350,000.

Customer satisfaction is high thanks to its intuitive screen layout and convenient UI. We have received a lot of feedback that the real-time AI analysis and briefing features, which allow users to quickly check key investment information and market trends, are useful, and there is strong interest in the overseas community integration feature.

We are currently in the stage of assessing the customer experience, and we are rapidly enhancing key screens and new features to ensure that customers experience no inconvenience in the stock trading process.

Although trading through the 'MOUM' app is not yet active, we plan to expand it over the long term into an all-in-one platform that provides all trading services and features. We will sequentially add key products and services such as stock accumulation plans and ISA accounts.

A4.

Next, I will address our strategy for acquiring retail clients and expanding market share following the end of the zero-commission promotion.

Even after the promotion ends, our goal is to retain all clients using existing Super365 accounts and, furthermore, to acquire as many new clients as possible. To this end, we are preparing a new pricing policy and a platform expansion strategy.

First, regarding our pricing policy, even after the promotion ends, we will continue our policy of offering clients the most reasonable fee structure, with rates lower than those of our competitors. Starting January 1, 2027, we plan to introduce a plan-based system that allows clients to choose the pricing plan most advantageous to them based on their trading size and

usage patterns. There is no separate fee for using the plans, and by selecting the optimal plan, clients will have the most efficient and economical investment platform in the market.

Next is our platform expansion strategy. We recently added an Open API service and an overseas stock accumulation feature.

Open API is a tool that allows users to connect directly to the brokerage system through a program—without opening the trading app—to check current stock prices and automatically enter buy and sell orders at the desired time. What differentiates our Open API service from those of our competitors is that it enables users to check quotes and place stock orders by chatting in everyday language in AI apps, without requiring complex programming knowledge. We expect stock order volume through Open API to grow rapidly and plan to develop it into the most competitive service in the industry.

In addition, we are preparing features for promissory note investment, ISA accounts, domestic and overseas stock options, and futures trading. Through this expansion strategy, we plan to enhance customer convenience and actively expand new customer acquisition.

Q5.

Our CSM multiple this quarter seems to have declined considerably compared to 2Q. Since the impact of the advanced actuarial assumptions in 2Q did not seem that large, the decline in the multiple appears bigger than expected. Could you explain in detail what factors drove the decline?

Q6.

Looking at the new business disclosures for 1H26, our new business CSM relative to insurance acquisition cash flows—that is, new business acquisition costs—appears to be among the lowest of the major insurers. Given that our experience variance has been better than that of peers, I checked whether claims assumptions had been set conservatively high, but that does not seem to be the case. It appears that we spend somewhat more on acquisition costs relative to premiums. Could you explain in detail whether you are pursuing this strategy because you believe it is sufficiently advantageous in terms of profitability even with this level of acquisition costs?

Also, I would like to ask how much impact the contract acquisition cost regulation, which will be introduced next year, will have on the new business CSM multiple and related metrics. It would be helpful if you could provide a comprehensive update covering, for example, the new business CSM conversion multiple and the surrender value reserve.

A5.

This is Joong-Hyun Kim from Fire & Marine Insurance. First, I will explain the new business CSM multiple.

The 3Q new business CSM multiple for protection products was 11.8x, slightly lower than 12.5x in the previous quarter. The decline was caused by the deterioration of assumptions for simplified issue (SI) insurance resulting from the changes to the loss ratio assumption regime reflected in 2Q.

Unlike our peers, we reflected the changes to SI loss ratio assumptions—the implementation of which was postponed to year-end—in 2Q, together with other changes in actuarial assumptions. As the SI products we are currently focusing on fall under the new coverages subject to this regulatory change, the conversion multiple declined slightly as we uniformly applied a 91% loss ratio assumption to the relevant products and coverages.

We expect this phenomenon to appear across the industry at year-end, when the regulation takes effect.

For reference, there are no other changes.

The change in the new business conversion multiple for 3Q sales will be reflected on the balance sheet and income statement in the form of lower new business CSM and higher experience variance profit.

Going forward, we plan to pursue gradual price increases while maintaining our current relative price competitiveness, thereby continuously raising both the new business CSM multiple and total CSM. In fact, we implemented a price increase of around 2% in October, and we have not observed any change in total new business sales compared to before.

A6.

Next, I will address the question regarding insurance acquisition cash flows and the new business CSM ratio.

The question can be summarized into two parts: first, whether we consider our generation of total new business CSM to be efficient relative to the acquisition costs we invest, such as commissions and sales incentives; and second, the financial impact of changes to the contract acquisition cost regulation, such as the cap on total commissions.

I will answer them one by one. First, it is difficult to compare profitability and input efficiency across companies based solely on the ratio of new business CSM to acquisition costs that you mentioned.

This is because new business CSM, the numerator of the ratio, depends entirely on the actuarial assumptions each company applies. In reality, even with the same price and the same coverage, there are companies with a new business CSM multiple of 12x and others with 20x, and companies applying relatively conservative assumptions inevitably show a lower ratio of new business CSM to acquisition costs.

If the advancement of actuarial assumptions proceeds as intended, we expect that a comparison of profitability and efficiency using this indicator will only be possible in two to three years. Meanwhile, regarding acquisition costs, the denominator of the ratio, we are maintaining our average commission and sales incentive levels at around third place in the industry, and we plan to sustain this level of competitiveness going forward.

We assess the value of new business through internal profitability metrics that comprehensively reflect expense ratios, including acquisition costs, and loss ratios. Based on these criteria, we believe our new business is sufficiently profitable and competitive in terms of total value, even taking into account the current level of acquisition costs.

As for your second question, it is difficult to comment on the specific financial impact of the cap on total commissions, as the detailed calculation criteria have not yet been finalized. Once the relevant criteria are confirmed, we will analyze and explain the impact at our next IR.

Q7.

Looking at our balance sheet, the surrender value reserve accumulated in 3Q was around KRW 300 billion, which does not seem significantly different from the previous quarter. My understanding is that last quarter there was some impact from the reversal of onerous contracts—could you explain whether a similar effect was at play this quarter, resulting in this level of accumulation?

Furthermore, there are concerns in the market that dividendable income may decline as the accumulation of surrender value reserves continues. Could you explain whether this could place a burden on our shareholder return policy going forward?

Q8.

I understand that since manual therapy was converted to managed benefit category in July, overall claim payouts have been decreasing. As this quarter is likely the first to be fully affected, it would be very helpful if you could tell us how much impact there was this quarter and how you expect this claims reduction effect to continue going forward.

A7.

This is Jong-Won Oh, CRO of Fire & Marine Insurance. I will address the surrender value reserve.

The surrender value reserve accumulated in 3Q was approximately KRW 310.0 billion. Unlike last quarter, there was almost no impact from the reversal of onerous contracts. Excluding a temporary impact of approximately KRW 20.0 billion due to differences in the number of business days, the amount decreased by approximately KRW 25.0 billion quarter-over-quarter.

Excluding such quarterly temporary factors, from a mid- to long-term perspective, the amount of reserves accumulated each quarter is increasing. This is because our new business sales are expanding.

Next, I will address dividends. Under the IFRS 17 framework, the accumulation of surrender value reserves partially restricts dividendable income. Accumulating reserves is, from an accounting standpoint, in the nature of retaining capital, and we have sufficient retained earnings and robust capital capacity to accumulate them.

However, under the current regime, reserve accumulation is somewhat excessive, and as this accumulation continues, the burden on our dividendable income is also growing. As the authorities and the industry are currently discussing measures to improve the regime, we expect a reasonable conclusion to be reached.

A8.

This is Joong-Hyun Kim from Fire & Marine Insurance. I will address manual therapy.

The effect of reduced losses from the conversion of manual therapy to managed benefit category has been appearing since September.

As of September, taking into account the balloon effect, loss savings amount to KRW 2.0 billion per month, or approximately KRW 24.0 billion on an annualized basis.

However, while non-reimbursable claims for manual therapy themselves have decreased by approximately 90%, a significant portion has shifted to other treatments such as cryotherapy (cold jet therapy) and prolotherapy, and we are also observing many cases of claims being filed under codes other than musculoskeletal ones. The final reduction in losses and its magnitude will be determined depending on whether this balloon effect expands.

We continue to monitor related treatment categories, and going forward we will also report savings on a basis that takes the balloon effect into account.

Q9.

Regarding Meritz Fire & Marine Insurance, the increase in net income across the insurance industry this year appears to have been largely driven by investment profit, and even that seems to have been concentrated in the first half. As market volatility increases and investment profit becomes unstable, some investors take a challenging view of the second half and next year. Could you share your outlook for insurance profit and investment profit going forward?

Q10.

Next is a question about plans to expand equity assets. Given that market-wide volatility may persist for some time, is your strategy of expanding equity assets unchanged? Could you also share how you plan to manage and respond with respect to investment assets going forward?

A9.

This is Joong-Hyun Kim from Fire & Marine Insurance. I will focus on the earnings outlook for Fire & Marine Insurance.

First, regarding insurance profit, we have a positive outlook based on three factors.

First is the CSM balance. CSM at the end of 3Q stood at KRW 12.3 trillion, an increase of approximately KRW 1.2 trillion from the end of last year. As all changes in actuarial assumptions were reflected in 2Q, year-end CSM will remain at a similar level to the current one without major adjustments. We expect our CSM fluctuation related to actuarial assumptions to be the smallest in the industry.

Second is new business. While the market contracted by approximately 10% in cumulative 3Q protection new business, we grew by approximately 15% year-over-year. We expect the CSM growth effect from expanding total new business to continue going forward.

Third is the loss ratio. Over the past two to three years, by refraining from selling moral-hazard-prone coverage and competing on coverage amounts, we have maintained our risk loss ratio at the lowest level in the industry. We expect this trend to continue going forward.

Next is the investment side. I will exclude equity assets, which are the subject of the next question.

On the investment side, we expect provisions and write-offs to decrease going forward, and we anticipate profit growth by maximizing our traditional strengths in corporate finance.

This year as well, we have continued to recognize losses on PF loans and non-performing overseas real estate assets. Having preemptively recognized losses on non-performing assets since 2024, we expect related losses to gradually decrease from 2027 onward. Meanwhile, we will actively leverage our competitiveness in corporate finance, a traditional area of strength, as well as opportunities to improve new investment yields from rising interest rates, to secure an investment profit base capable of absorbing stock market volatility.

In summary, we have a positive outlook for next year's earnings compared to this year in both the insurance and investment segments.

A10.

Next, I will address the expansion of equity assets at Fire & Marine Insurance.

To get straight to the point, there is no change in our direction of expanding the proportion of equity assets going forward. Although equities exhibit high short-term volatility, we believe that over the long term—10 years or more—they will deliver higher returns than other assets.

On this basis, to expand the proportion of equity assets, we have selected the most competitive domestic and overseas indices and are steadily investing a fixed amount each month in portfolios that track those indices.

Of course, short-term stock price fluctuations are unavoidable. What matters is whether we can sustain long-term investment while withstanding such volatility. We believe we have sufficient financial capacity to do so. At the same time, to reduce P&L volatility stemming from short-term stock price movements, we have been executing investments exclusively as OCI assets since the beginning of this year, and equity investments will continue to be made through OCI accounts going forward.

Rather than trying to predict next month's stock prices, we invest in equities with a horizon of 10 years or more. We view the price swings that occur along the way not as a penalty, but as a fee or an admission ticket that must be paid to earn long-term returns.

Going forward, in accordance with these principles, we will manage equity assets from a long-term investment perspective without being swayed by short-term volatility. In addition, we will further solidify the earnings base of non-equity assets so that the overall portfolio can grow steadily while fully absorbing stock market volatility.

Q11.

Although the investment banking division's results have improved quarter-over-quarter, this year's growth has come from areas other than investment banking. If there are any achievements from this year that you could share, please let us know. Could you also share your strategy for next year's growth targets?

Q12.

Next is a question on the trading division. You maintained good results despite a somewhat challenging environment in 3Q, and you have consistently delivered strong results this year. I am curious what factors drove this and whether it will be sustainable next year.

A11.

This is Jong-Min Kim, CEO of Securities. I will address the performance and growth strategy of the investment banking division.

This year, fee income decreased by approximately 10% year-over-year due to an overall deal drought and intensified competition; however, we continue to source high-quality deals based on our ability to provide solutions that meet the needs of corporate clients.

I understand that some in the market are concerned that our IB strengths may be diluted by the downturn in the PF market. However, in non-real estate corporate finance, this year we have built a clear track record by closing numerous tailored structured finance deals for large conglomerates, including SK Group, POSCO Group, Korea Zinc Group, and Shinsegae Group. In real estate finance, even amid a flight to quality, we have successfully completed refinancings for mega-scale landmark projects, once again demonstrating our unrivaled deal arrangement capabilities.

Next, I will address the growth strategy for the IB division.

First, in the PF segment, we plan to prioritize residential projects that enable early recovery of funds and rapid capital turnover through pre-sales, thereby contributing to the government's expansion of housing supply while securing high-quality earnings. At the same time, for deals with clear upside relative to risk and capital requirements, we will also consider subordinated loans and equity investments to expand our earnings potential.

Furthermore, with the approval to issue promissory notes, we believe the diversification of our revenue sources into general corporate finance will accelerate further. In general corporate finance, while continuously strengthening traditional corporate finance such as DCM, ECM, and acquisition financing, we plan to leverage Meritz's unique strengths to consistently secure landmark mega deals that provide optimal financial solutions in a timely manner, thereby reinforcing profitability.

Lastly, once our Hong Kong subsidiary, which aims to obtain its business license within the first half of next year, becomes fully operational, we expect it to contribute to the diversification of corporate finance revenue sources by expanding high-quality overseas deal sourcing.

A12.

This is Won-Jae Jang from Securities. I will address the performance of the trading division.

Cumulative 3Q net operating revenue for the trading division was KRW 776.0 billion, up approximately 40% year-over-year. We believe this is the result of building structural fundamentals that are not shaken by changes in the market environment.

The trading division's results mainly consist of revenue generated by Sales & Trading, which can be broadly divided into market making, which passively provides liquidity by placing buy and sell orders in the market, and proprietary trading, which actively captures market opportunities to invest.

First, market making accounts for approximately 60% of total trading revenue, which we believe is the result of our long-standing efforts to steadily develop related IT systems and trading strategies.

While equity market-making revenue expanded significantly due to the strong stock market and increased trading value in the first half, FICC market-making revenue has also continued its steady upward trend. This serves as a foundation for generating stable revenue without wavering, even in a somewhat unfavorable macro environment such as rising interest rates.

In proprietary trading, we focus on strategies pursuing absolute returns rather than investments based on predicting the direction of the stock market.

Based on volatility strategies that leverage price volatility and various absolute return strategies that accumulate gains by capturing arbitrage opportunities, we have delivered consistent performance despite market fluctuations. In addition, from a mid- to long-term perspective, we plan to generate new revenue by strengthening equity-based alternative investments such as new technology finance and PE equity investments.

While it is difficult to guarantee that this year's solid trading performance will continue next year, we will do our best to enhance the stability and sustainability of earnings by building advanced trading infrastructure and developing diverse strategies.

Individual Investors Q&A

※ Comments from the host and operator have been omitted.

Q1.

Looking ahead over the next three years or so, how do you view the direction of earnings growth and key growth drivers for Fire & Marine Insurance, Securities, and Capital? Even if not specific targets, I would appreciate it if you could share the current earnings composition and how you expect each subsidiary's earnings contribution to change going forward.

A1.

This is Yong-Beom Kim from the holding company.

To give a rough breakdown of the current earnings mix, Fire & Marine Insurance accounts for about 60%, Securities about 30%, and Capital has yet to reach 10%. As the businesses we have invested in begin to deliver results, we expect the share of Securities and Capital to grow.

At Meritz, holding company does not set earnings targets for its subsidiaries. We have grown by having each subsidiary identify business opportunities on the ground and rewrite its own three-year plan—one that embodies its aspirations—every year.

From this perspective, let me speak about the key changes that will affect each subsidiary's future earnings growth.

Fire & Marine Insurance has surpassed KRW 1.35 trillion in cumulative 3Q net income and KRW 12 trillion in CSM, but it is not complacent with its current performance and continues to take on new challenges. I believe in the continued growth of Fire & Marine Insurance from three perspectives.

First is profitability-driven new business growth. The monthly average of protection new business in 3Q was KRW 11.7 billion, an increase of approximately 16% from last year's monthly average of KRW 10.7 billion. This is the result of focusing solely on expanding total value without participating in loss-making, cutthroat competition.

Second is the diversification of investment asset management. From a long-term perspective, we are diversifying our investment portfolio, including gradually expanding domestic and overseas equity assets, to strengthen our mid- to long-term earnings base.

Third is innovation in how we work and make decisions using AI. Through our ongoing AI projects, we will fundamentally transform existing work and decision-making processes, further strengthening the competitiveness of both our core insurance business and investments.

Considering this earnings base and growth potential, I believe Fire & Marine Insurance will continue to account for more than half of the Group's earnings.

For Securities, we expect earnings growth to be the most notable over the next three years.

There are three major changes.

First, we have expanded our business structure, which was centered on real estate finance, into traditional IB. The non-real estate share of 3Q IB net operating revenue has increased to 40%, and the talented professionals we have newly recruited are delivering tangible results.

Second is the growth of the retail business. Over the past year, the number of retail clients has increased approximately 1.9-fold and client assets roughly 2-fold. This is the result of broadening our touchpoints with clients through our new platform and PIB Centers. We will focus on maximizing customer satisfaction and translating it into sustained earnings growth.

Third is the expansion of existing businesses and new business opportunities. In September, we obtained approval to issue promissory notes, and we are continuing our efforts to secure new business foundations, including the establishment of a Hong Kong subsidiary.

If these initiatives translate into results, we expect the earnings growth of Securities over the next three years to be even greater. In terms of contribution to Group earnings, we expect healthy competition between Fire & Marine Insurance and Securities.

Capital is creating new growth opportunities through the recovery of existing investment assets, improved profitability, and the expansion of new retail businesses.

In summary, all three companies will create new growth in their own ways without becoming complacent with their current earnings levels.

In particular, as Securities and Capital deliver results from the businesses they have been preparing, we expect the Group's overall earnings to grow and each subsidiary's earnings contribution to shift naturally.

Q2.

I hope the current excellent level of shareholder returns will continue. However, given that there are various unpredictable variables in the financial environment, I think it may be better to strengthen preparedness against tail risks rather than further raising the shareholder return ratio. I am curious whether you have sufficient buffers against changes in conditions for the insurance industry, real estate PF, corporate finance, and alternative investments, and how Meritz effectively controls risk.

Unpredictable variables and volatility in the financial markets seem to have increased recently, so I am curious whether you have sufficient buffers against such changes.

A2.

This is Hee-Moon Choi, CIO of the holding company.

We guard against risk in three stages.

The first is preemptive control. Every deal must go through a review involving each CEO and CRO of the Group, and even approved deals are executed only within limits by asset class, borrower, and credit rating. We are further strengthening this framework so that even if a single deal goes wrong, the impact does not spread to the Group as a whole.

The second is absorbing losses in advance when assets become impaired. As part of more conservative management, Fire & Marine Insurance has set aside provisions and reserves for the entire balance of non-performing PF loans, while Securities has done so at around 50% of the balance, reflecting collateral value. As such, we expect related losses to decrease substantially from 2027.

The last is absorbing any remaining shock with capital. Every quarter, we apply major past crises directly to our current portfolio to calculate losses—scenarios such as the IMF crisis, the Global Financial Crisis, and COVID-19, in which stock prices, interest rates, and default rates deteriorate simultaneously. According to the latest results, expected losses under all three scenarios do not exceed 10% of total exposure.

Because we have such buffers, the current volatility represents more of an opportunity than a crisis for us. This is because companies with capital capacity can secure good assets on better terms.

We also believe it is important not to repeat past mistakes. We are currently using AI to re-analyze, one by one, past investments that became impaired. The goal is to identify where our judgment went wrong and reflect those lessons in new investment reviews.

We are applying more stringent LTV stress tests, and to reduce completion risk, we are selecting construction companies more rigorously, taking into account factors such as financial soundness. In particular, for non-residential properties such as offices, retail, logistics centers, and data centers, we have set much more detailed review criteria and take on risk only for deals that pass those criteria.