



Samsung Securities Co., Ltd.

- Samsung Group Asia Conference -

Aug 2018
Investor Relations

Samsung Securities



Contents

1H 18 Highlights & Strategic initiatives

Key Agenda

1. Recent ESOP Dividend Incident
2. Strategic Direction

1H18 Highlights

1 Record earnings in 1H18

- (Consolidated) 1H18 pretax income increased 96% YoY to W316bn and achieved 89% of 2017 annual earnings
- (Separate) Pretax income increased 97% YoY to W307bn
- Reported first double digit ROE in three years

2 Strong earnings continued in 2Q18, despite ESOP incident in April

- Recognized loss of W10bn related to the ESOP incident
- A few pension funds suspended business with our wholesales equity business, however the effect has been limited
 - ※ Domestic wholesales biz contributes 2% to our net revenue

Separate basis					
(Wbn)	1H18	2Q18	1Q18	1H17	YoY
Net revenues	650.3	294.4	355.9	433.3	+50%
Brokerage ¹	223.6	100.4	123.2	143.1	+56%
Financial product sales ²	153.3	64.0	89.3	188.0	-19%
Trading & interest income	216.9	111.0	105.9	68.3	+217%
Investment banking	46.2	18.2	28.0	33.6	+38%
Other ³	27.7	9.6	18.1	17.7	+57%
Commission expenses	(17.4)	(8.7)	(8.7)	(17.5)	-
Operating expenses	341.8	168.7	173.1	275.7	+24%
Personnel expenses	205.0	100.6	104.4	147.1	+39%
SG&A expenses	136.8	68.1	68.7	128.6	+6%
Operating income	308.5	125.7	182.8	157.6	+96%
Non-operating income	(1.1)	(0.2)	(0.9)	(1.8)	-
Pretax income	307.4	125.5	181.9	155.8	+97%
Income tax expense	80.2	33.8	46.3	36.6	+119%
Net income	227.2	91.7	135.5	119.2	+91%
Return on equity	10.1%	8.1%	12.3%	5.9%	+4.2%p
Cost-to-income ratio	52.6%	57.3%	48.7%	63.6%	-11.1%p
Consolidated basis					
Pretax income	315.5	135.4	180.1	161.2	+96%
Net income	232.6	100.0	132.6	122.7	+90%
Return on equity	10.3%	8.1%	12.3%	6.1%	+4.2%p

¹ Brokerage revenue excluding related costs

² Net revenues from financial product sales includes mutual funds, wrap accounts, OTC derivative products, bancassurance and trust(fixed income sales credit included in trading income)

³ Interest on securities borrowing expenses, card related commissions(separate basis includes dividend from subsidiaries)

1H18 Highlights (continued)

[Earnings by revenue source]

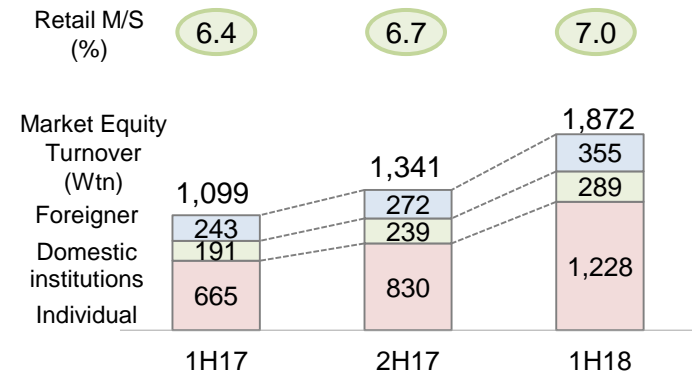
3 Brokerage commission increased on strong investor activity and gain in market share

- Brokerage commission increased 56% YoY to W224bn on the back of strong market equity turnover
- Market Equity turnover +70% YoY
- Retail client M/S increased to 7.0% in 1H18 from 6.4% in 1H17

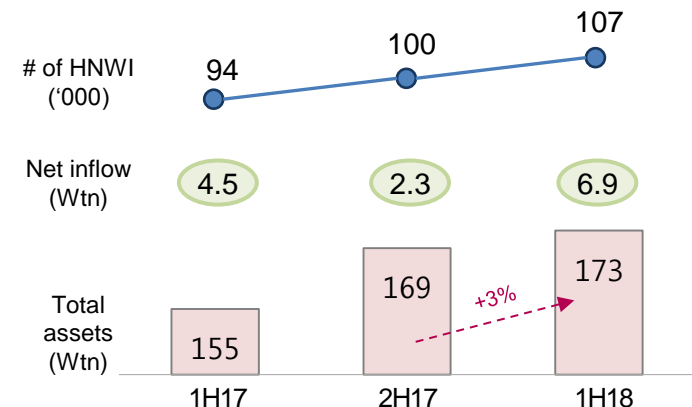
4 Despite weak financial product sales due to ELS related revenue, retail business remains strong

- Weak ELS early termination revenue led to 19% decrease in financial product revenues to W153bn
- However, revenue from sale of funds and wrap accounts increased and steady net inflow of client assets continued
- # of HNWI clients increased by +8,095 YoY

[Equity turnover & market share]



[Retail client assets]



※ # of HNWI & total assets based on quarterly average , Net inflow in sum of semi-annual inflow

1H18 Highlights (continued)

[Earnings by revenue source]

5 Trading and interest income increased amid improved hedge trading and loan growth

- Trading income increased on ELS hedge trading cost decrease and favorable FX rate
- Interest income increased as both deposit and margin loan balance increased

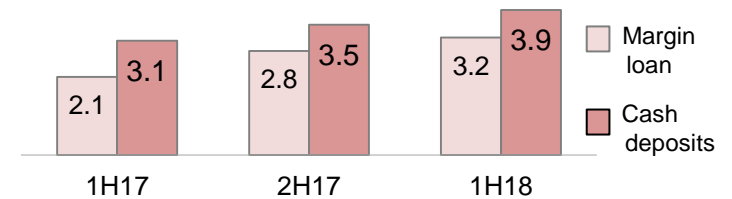
6 IB revenue increase driven by structured products sales

- Market position in M&A and ECM improved
- Continue to strengthen structured product sales

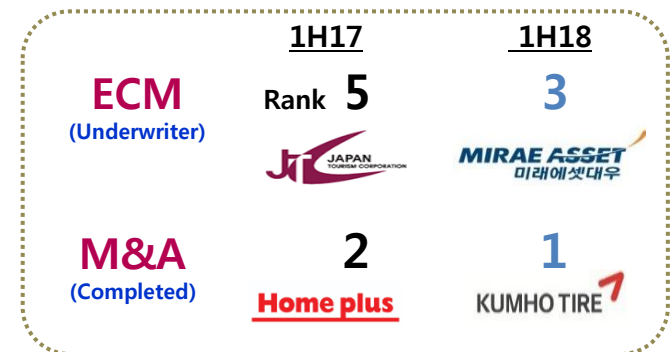
[Trading income related assets]

(Wtn)	19.6	19.3	18.8	
	9.4	8.9	7.9	Repo
	4.6	4.5	3.2	DLS
	5.6	5.9	7.7	ELS
	1H17	2H17	1H18	

[Deposit & Margin loan balance]



[IB league table]



Note: Based on The Bell league table,
M&A ranking based on domestic firms league table

1H18 Strategic Initiatives

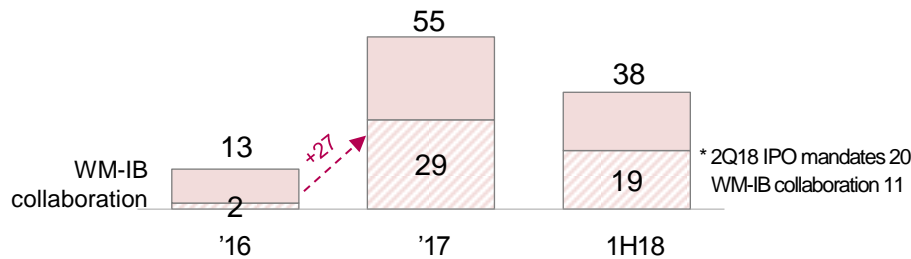
1 Strengthen WM-IB collaboration to target corporate owners

- Create business opportunities by leveraging strong Corp. owners/Corp. network



- Enhance community platforms such as CEO/CFO forum etc.
 - ※ # of CEO/CFO forum members : 1st class('16) 127 → 3rd class ('18.6) 153
 - Regional/sectoral forums : 540 660
- Actively utilize strong client relationship to refer clients to IB division and penetrate corporate financing market

[# of IPO Mandates]



- ✓ Listed DIT(Digital imaging Technology) in Aug 2018 through joint effort between WM-IB

2 Expand overseas stock business (Promote global asset allocation and diversify revenue source)

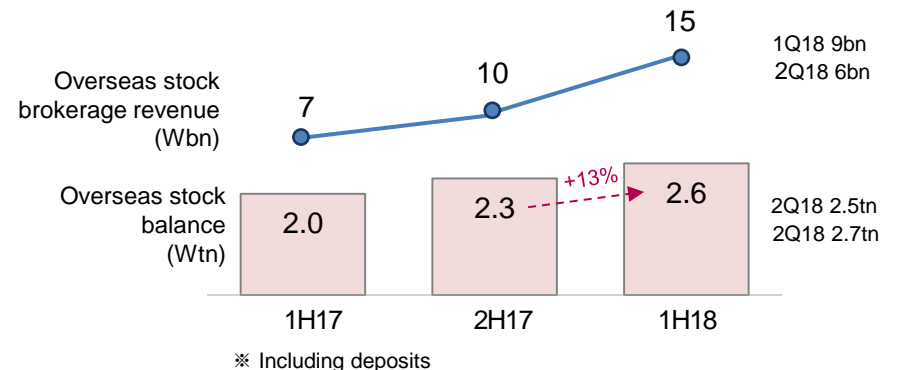
- Strengthen global research service through global alliance network

- Continued to expand strategic global network
 - ※ CITIC securities ('15), KGI ('16), SMBC NIKKO ('17)
 - Ho Chi Minh securities ('17), **RBC ('18.3), Societe Generale ('18.7)**

- Enhance trading convenience

- Launched the first integrated deposit service in Korea for overseas stock trading customers
 - ※ Allows customers to order stocks immediately without forex services

[Overseas stock balance & revenue]



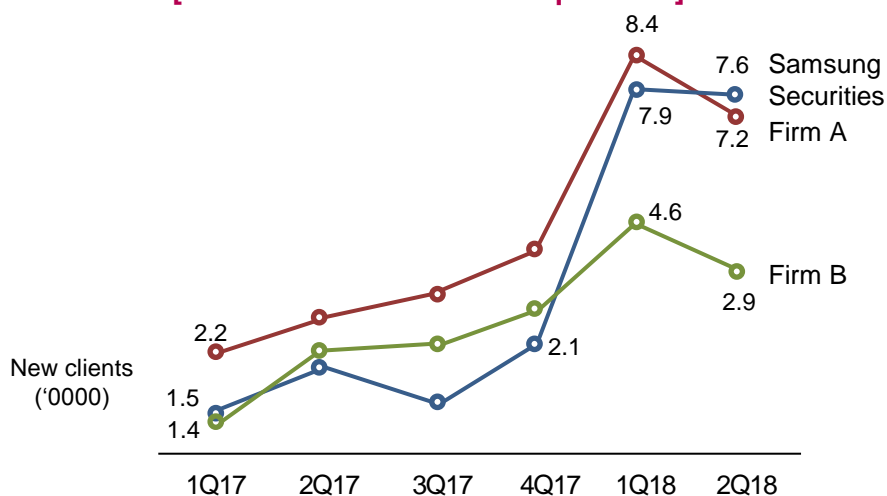
1H18 Strategic Initiatives (continued)

3 Capture clients through non face-to-face channel

□ Active marketing to capture younger generation investors for the future

- Capture new clients to strengthen client base to take lead market position
- Promote cross/up selling products and diversify revenue source

[Non face-to-face client acquisition]



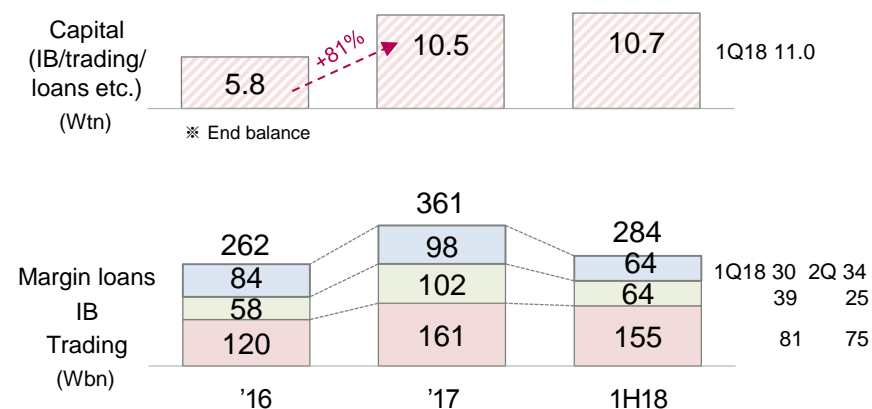
※ Samsung Securities estimation

4 Actively utilize capital

□ Balancing risk and use of capital to optimize profits

- IB focus on finding attractive products for retail/wholesale clients and expanding corporate financing biz
- Trading to expand ELS/DLS related assets, strengthen flow trading
- Expand margin loan biz for retail investors including securities-collateralized loans

[Capital utilization & revenue]



※ Based on internal management revenue, excluding margin loan related expenses

1H 18 Highlights & Strategic initiatives

Key Agenda

- 1. Recent ESOP Dividend Incident**
2. Strategic Direction

1. ESOP Dividend Incident - ① Limitations from restrictions

□ FSC (Financial Services Commission) affirmed the following disciplinary actions on Jul 26th, 2018

About the restrictions

- ✓ **Samsung Securities is banned from opening equity brokerage accounts to new investors for 6 months starting from Jul 26th, 2018** * We will resume business on Jan 27th, 2019.

[Details on business suspension]

- **New investors will not be able to open a brokerage account starting from Jul 27, 2018**
 - * Clients who joined prior to Jul 27, 2018 will be serviced as usual
- **Suspension is limited to domestic/foreign stocks.** Therefore, new investors who trade **bonds, BW/CB/EB, futures, options, ETF/ETNs will be able to open a separate account**
- **Samsung Securities will also be suspended from IPO subscription for new investors and new block deals**
- **Pensions and trust business will proceed as usual**
 - * Business restriction is limited to new investors' stock brokerage activities only

- ✓ **A W144mn cash penalty was imposed on Samsung Securities**
 - * Cash penalty was recognized as non-operating expense in 2Q18

1. ESOP Dividend Incident - ② Impact on company

Direct impact

- ✓ We have been suspended from opening equity brokerage accounts to new investors for six months
- ✓ We estimate maximum impact on annual revenue of **W8bn**
 - ✧ We estimate loss from 6 month suspension at W4bn
- ✓ We have not noticed any other direct impact after the incident on other businesses such as wealth management, IB and trading

Indirect impact on business

- ✓ We do not expect further impact on our wholesale equity business
 - Equity brokerage M/S already decreased in 2Q18 **as a few pension funds suspended business, however the effect has been limited**
 - * Wholesales contributes 2% to our net revenue
- ✓ Our credit ratings remain solid after the suspension at **AA+(Stable) rating**
- ✓ We are more concerned about the reputational risk and share price. However, Samsung Securities will work hard to **regain trust and restore company value**

1. ESOP Dividend Incident - ③ Our action plan

Solutions
to limit
business
impact

- 1 Strengthen internal process, review all system and improve internal compliance policy to prevent any accident from happening again
- 2 Provide better service and products for our current client base
 - Reach out to the **150,000 clients** who opened an account through on-line channels and focus on providing better service to improve client return
 - Also, **clients who open an account during the suspension period will be offered incentives to trade stocks** * For bonds, BW/CB/EB, futures, options, ETF/ETNs when we resume stock brokerage for new investors
- 3 Continue to execute our strategic initiatives based on consistent strategy through smooth transition in management
- 4 All employees will put all efforts into regaining trust from customers and shareholders

[Note] ESOP Dividend Incident - Cause

Why did it happen

- ✓ Dividends for ordinary shareholders are distributed through KSD, but dividends for ESOP are **entrusted to securities companies to manage tax benefits** for ESOP
 - * Ordinary shareholders were not affected by the incident
- ✓ Dividend payment for ESOP and ordinary shareholders of Samsung Securities' was **both managed by the Securities Service Team**
 - ※ 1,340 customer related corporate action annually vs ESOP dividend payment once a year
 - ⇒ **Less attention to ESOP related tasks**

Main Cause

- ✓ **Outdated ESOP system & confusing screens**
- ✓ **Staffs careless mistake**

[Screen : Dividend Payment]

✓ **mistakenly chose code 1(stock dividend) instead of code 7(cash dividend)**

[Screen : Supervisor's Approval]

승인	권리구분	종목명	보유수량	입금	주식입고
<input type="checkbox"/>	배당	금강공업	0		stock dividend
<input type="checkbox"/>	배당	에스코	155,406	233,109,000	0
<input type="checkbox"/>	배당	삼성증권	5,883,476	5,883,476,000	0
<input type="checkbox"/>	우리사주	삼성증권	0	0	2,812,956,000
<input type="checkbox"/>	일괄출고	삼성증권	2,812,956,000	0	2,812,956,000
<input type="checkbox"/>	일괄출고	삼성증권	2,812,956,000		
<input type="checkbox"/>	일괄대체입금	삼성증권	0	2,812,956,000	0

✓ **not identified by the supervisor**

- ✓ The staff mistakenly chose **「1.stock dividend code」** instead of **「7.cash dividend code」**
- ✓ The supervisor didn't recognize the wrong unit(shares instead of won) and approved

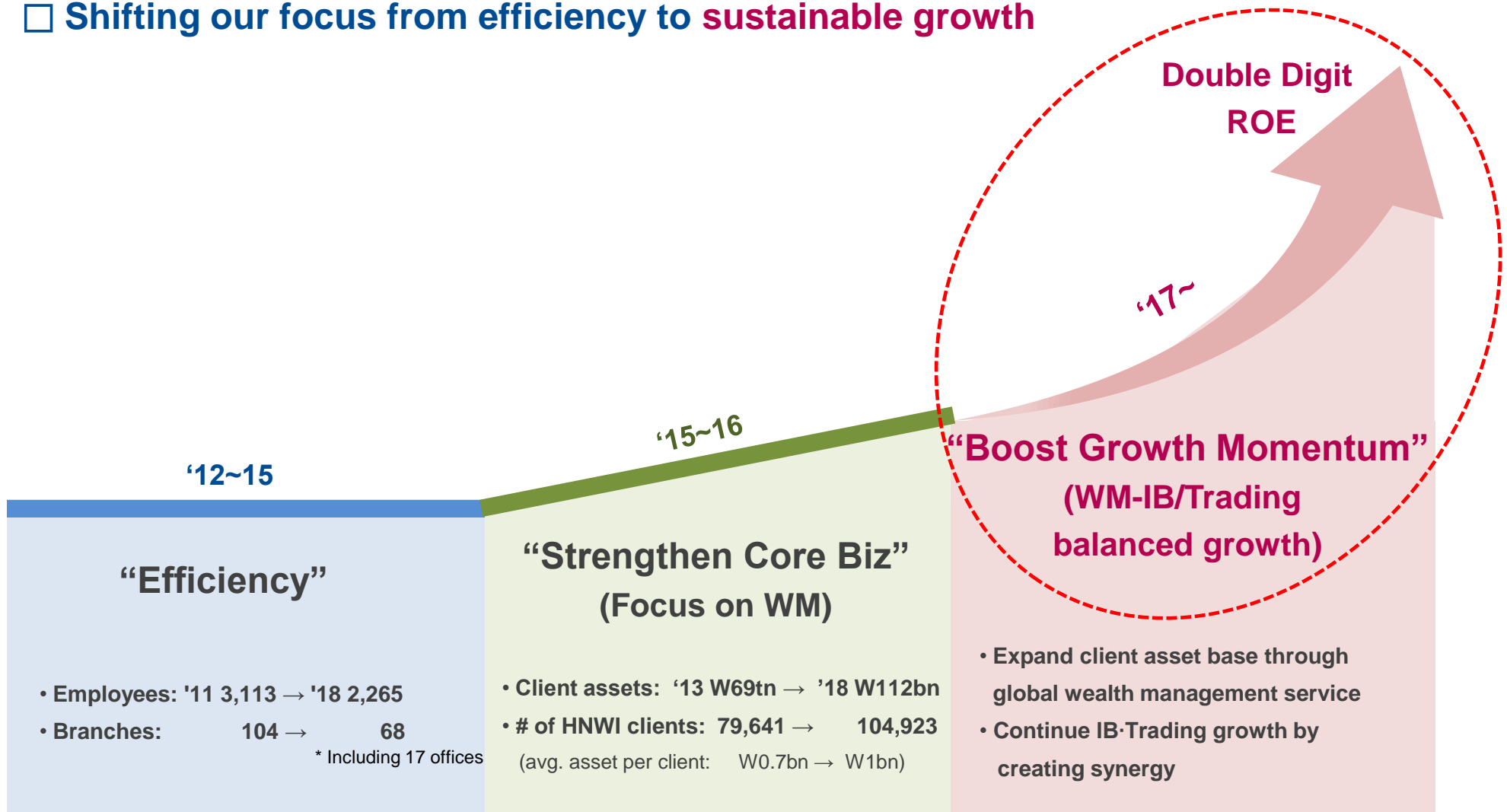
1H 18 Highlights & Strategic initiatives

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1. Recent ESOP Dividend Incident
- 2. Strategic Direction**

① Strategic Direction

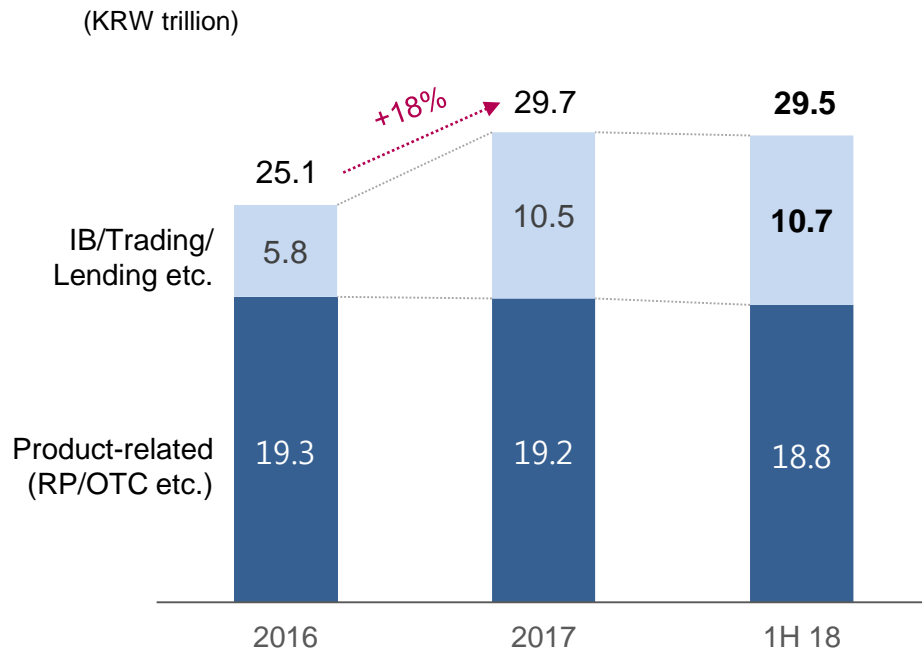
□ Shifting our focus from efficiency to **sustainable growth**



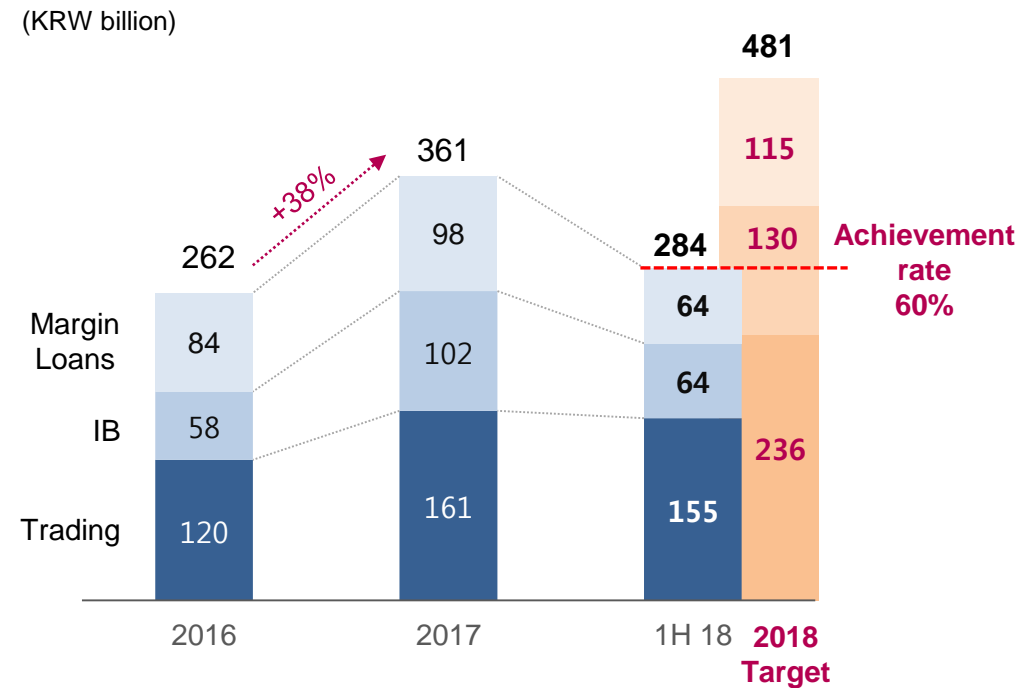
② Focusing on efficient use of capital

□ Actively utilize capital to maximize profits since 2017

- Capital Biz Balance -



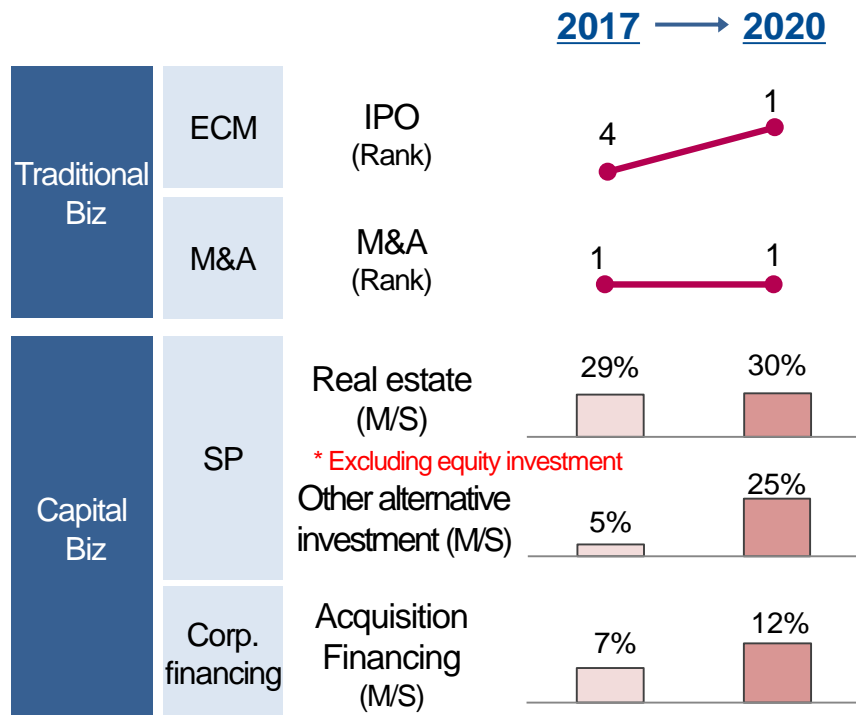
- Revenue from Capital Biz -



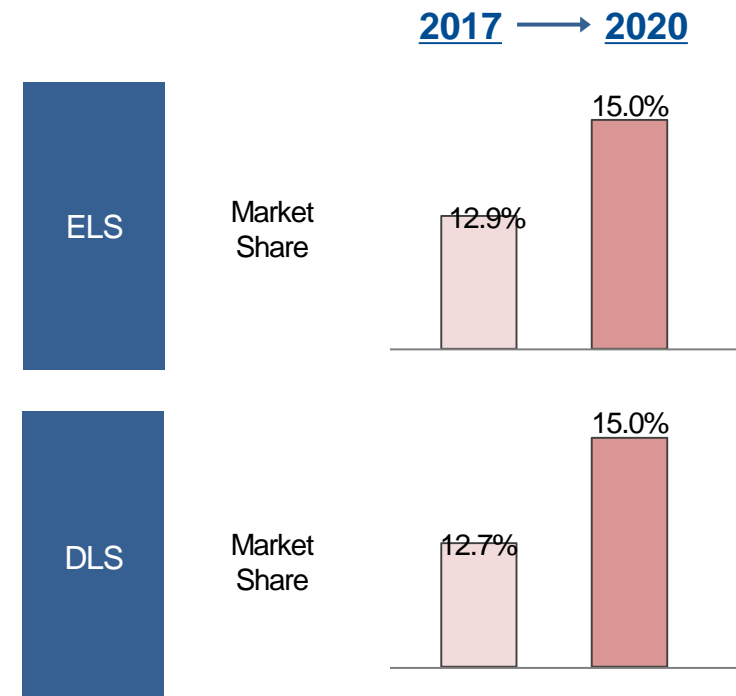
② Focusing on efficient use of capital (continued)

- Strengthen competitiveness to become top player in both IB and trading business

- IB Biz Target -

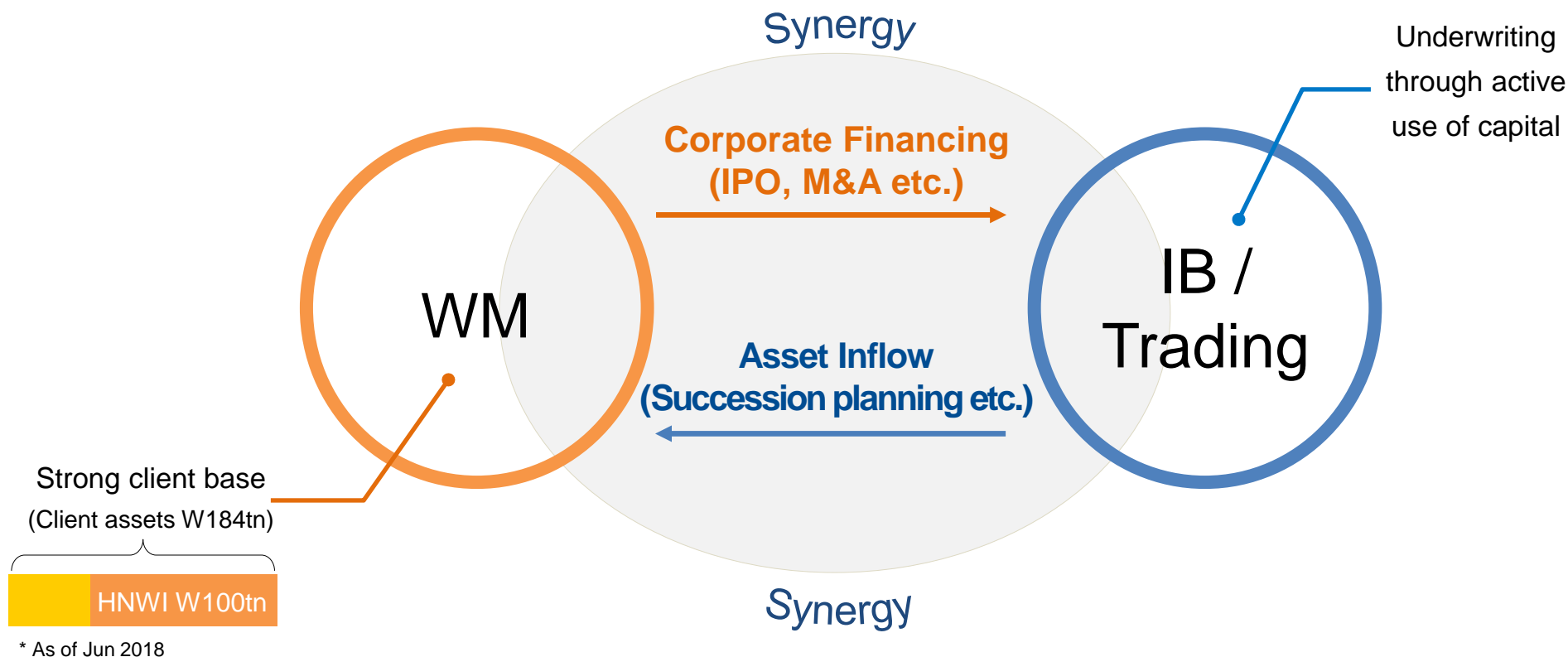


- Trading Biz Target -



③ Enhance retail business : WM-IB Collaboration

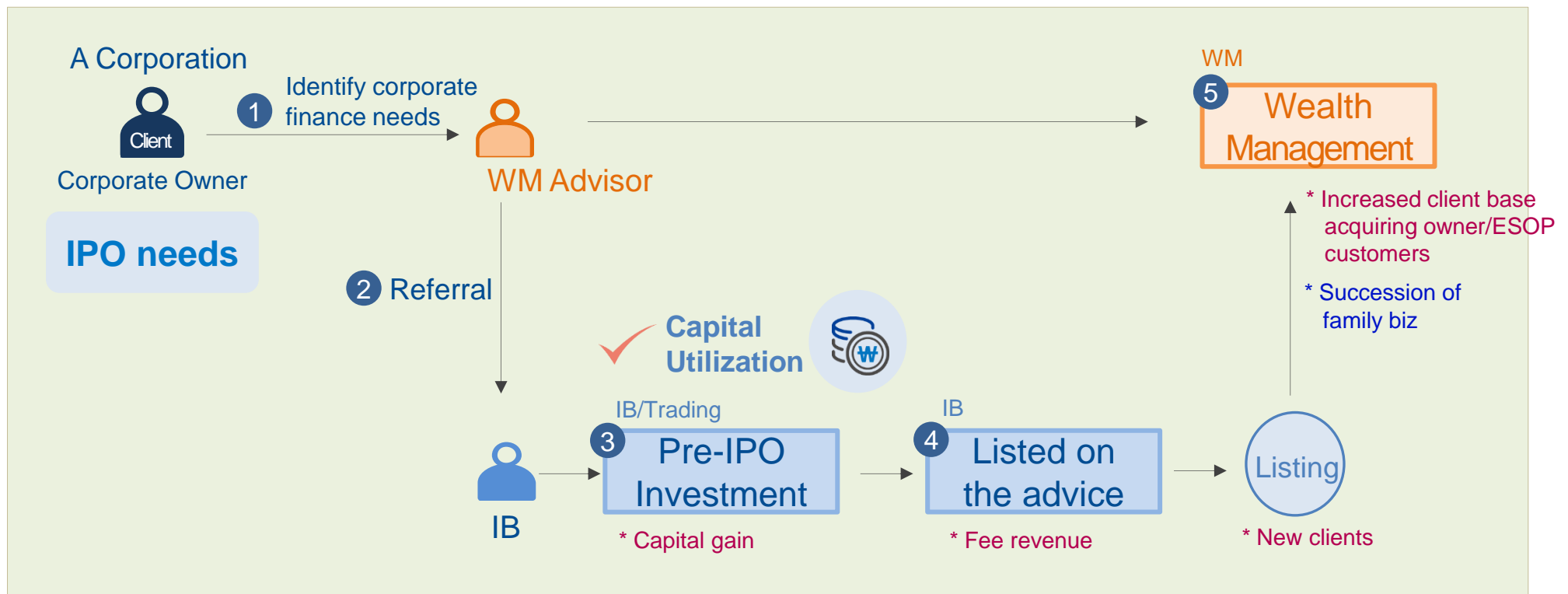
- Provide financial solutions not only on personal needs such as family succession, but also solutions on corporate financing (IPO, debt, M&A) for corporate owners



③ Enhance retail business : WM-IB Collaboration (continued)

- ❑ Creating a business opportunity through relationship with corporate owners

- Example of WM-IB Collaboration -



③ Enhance retail business : WM-IB Collaboration (continued)

- Increase business opportunities such as M&A, corporate governance advice through WM-IB client referral

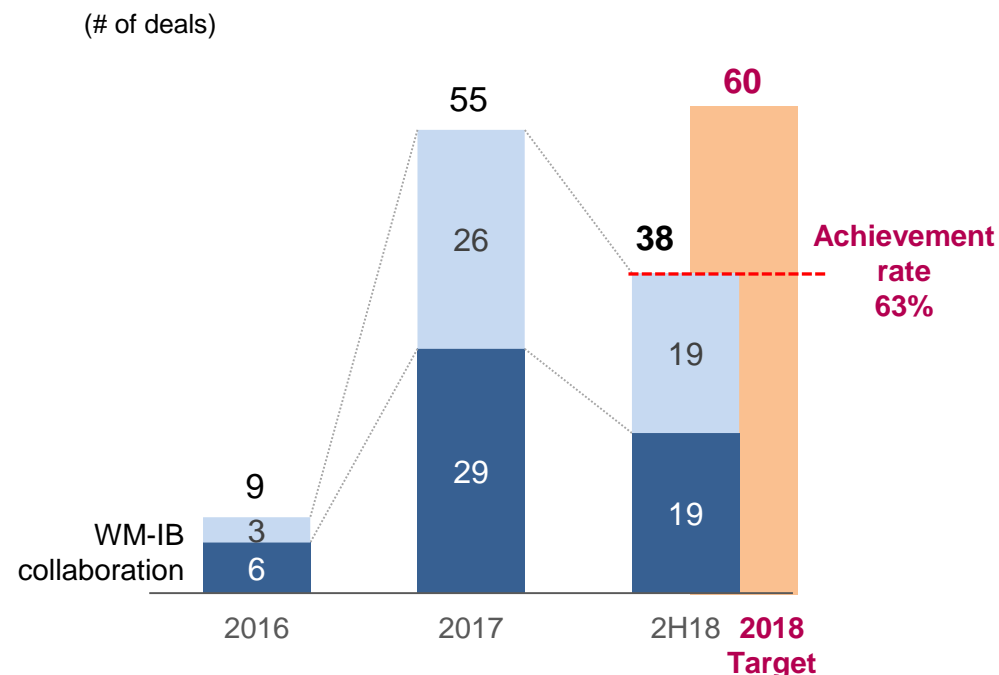
- Accessible client pool -

- Increase corporate client base through community platforms such as exclusive CEO/CFO forums

[# of Community members & market cap]

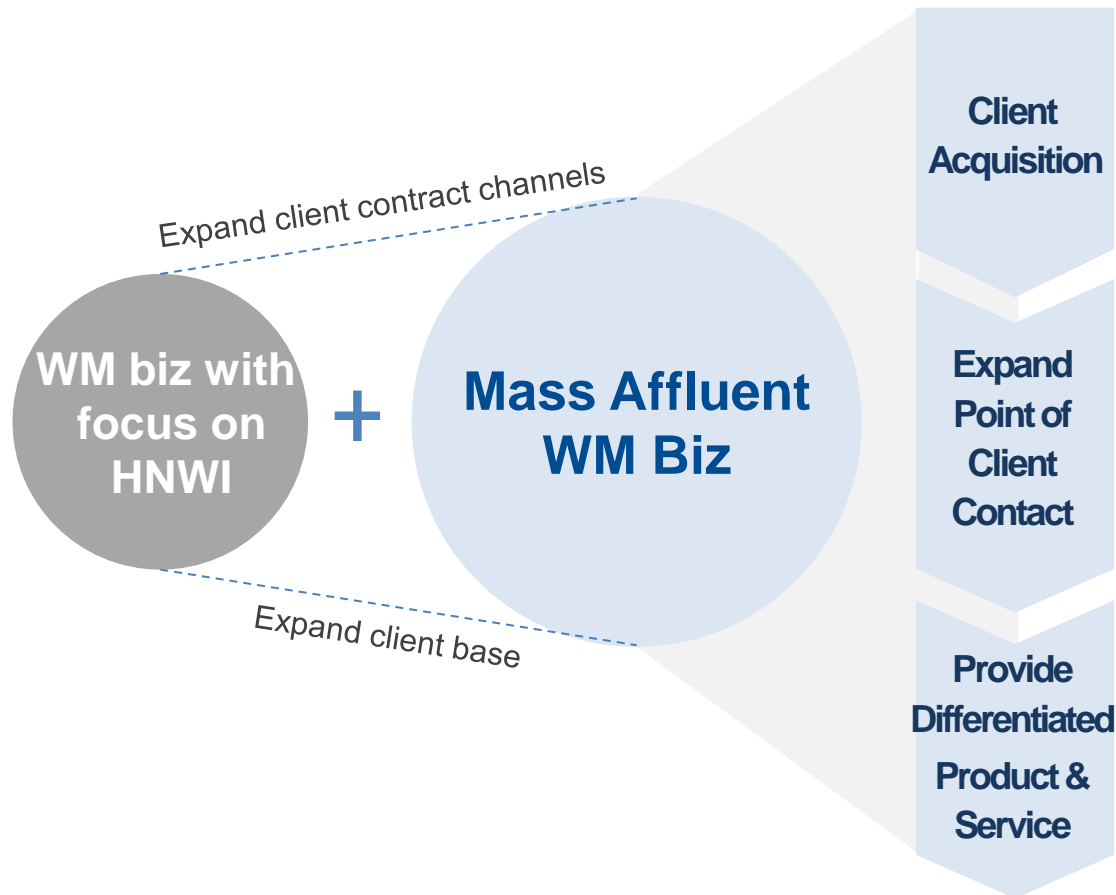
	Current	Target
Total # of members	1,073	1,650
CEO/CFO Forum	413	700
Regional/sectoral forums	660	950
Market cap	W365tn	620

- Number of IPO Mandates -



③ Enhance retail business : Mass Affluent

- Expand WM services to **mass affluent clients** through digital channel products & services capitalizing WM service capabilities for HNWI clients



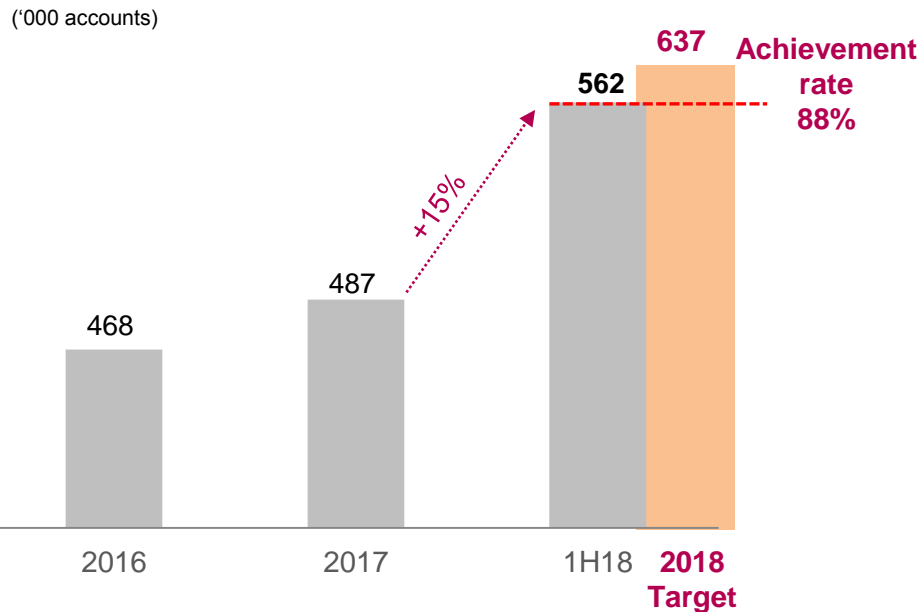
- Expand from HNWI clients-oriented asset management, to include the mass affluent
 - ex) 2040 generation, small biz owners etc.,.
- Strengthen non face-to-face channels (Increase client acquisition)
 - Call center personnel
 - Increase mass advisory staffs in Mega Financial Center
 - Expand digital channels such as chat-bot
- Provide customized products & services (Diversification of investment target)
 - Expand on-line services with focus on retirement products and develop on-line advisory platform
 - Strengthen data driven marketing activities (upgrade for customer based offering system)

③ Enhance retail business : Mass Affluent (continued)

- Active marketing to increase non face-to-face client acquisition, and cross-sell various financial products

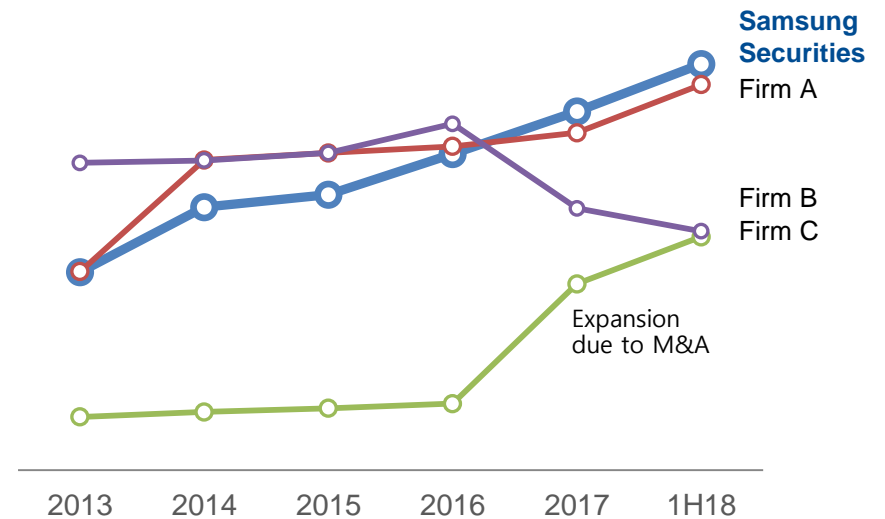
- Non Face-to-Face Clients Base -

▶ Number of non face-to-face clients acquisition



* Accumulated

▶ Mobile trading system M/S

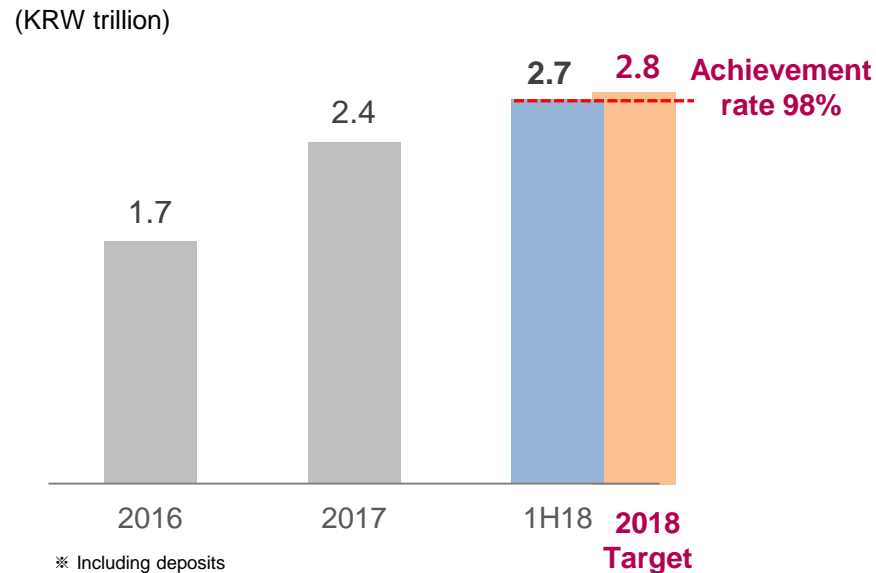


③ Enhance retail business : Overseas stock brokerage

- Expand overseas stock business in order to promote global asset allocation capabilities and diversify revenue source

- Expand Overseas Stock Business -

▶ Overseas stock brokerage balance
- 2021 Target W10tn



▶ Global alliance network



④ Regaining Trust & Confidence

1



Establish a ROE based performance management & evaluation process

- Each business division will be responsible to optimize use of capital and create best ROE in industry
- Also, each business will be evaluated on managing its own resources and ROE

2



Build new internal control system & corporate culture to prevent any activity that will harm client trust

- Zero Tolerance against any violations
- Corporate culture innovation (Align performance & compensation structure)
- Management communication (Sep.18~, 8 sessions)

* Main Topics : Compliance, vision sharing, corporate culture, etc.

3



Sharing out profits with our shareholders, improving shareholder returns

- Maintain an optimal capital level in line with our business model and steadily increase dividends as profits improve



Disclaimer

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Although they reflect our current expectations, these statements are not guarantees of future performance, but involve a number of risks, uncertainties, and assumptions.

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