

Global Conference 2018



Regaining Trust & Confidence

May 17, 2018

Samsung Securities



Contents

Summary of Recent ESOP Dividend Incident

Strategic Direction

① Cause

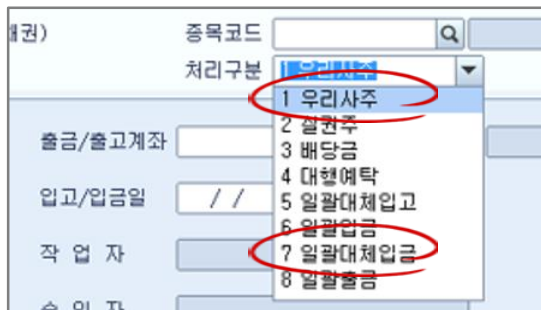
Why did it happen

- ✓ 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- ✓ Outdated ESOP system & confusing screens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)

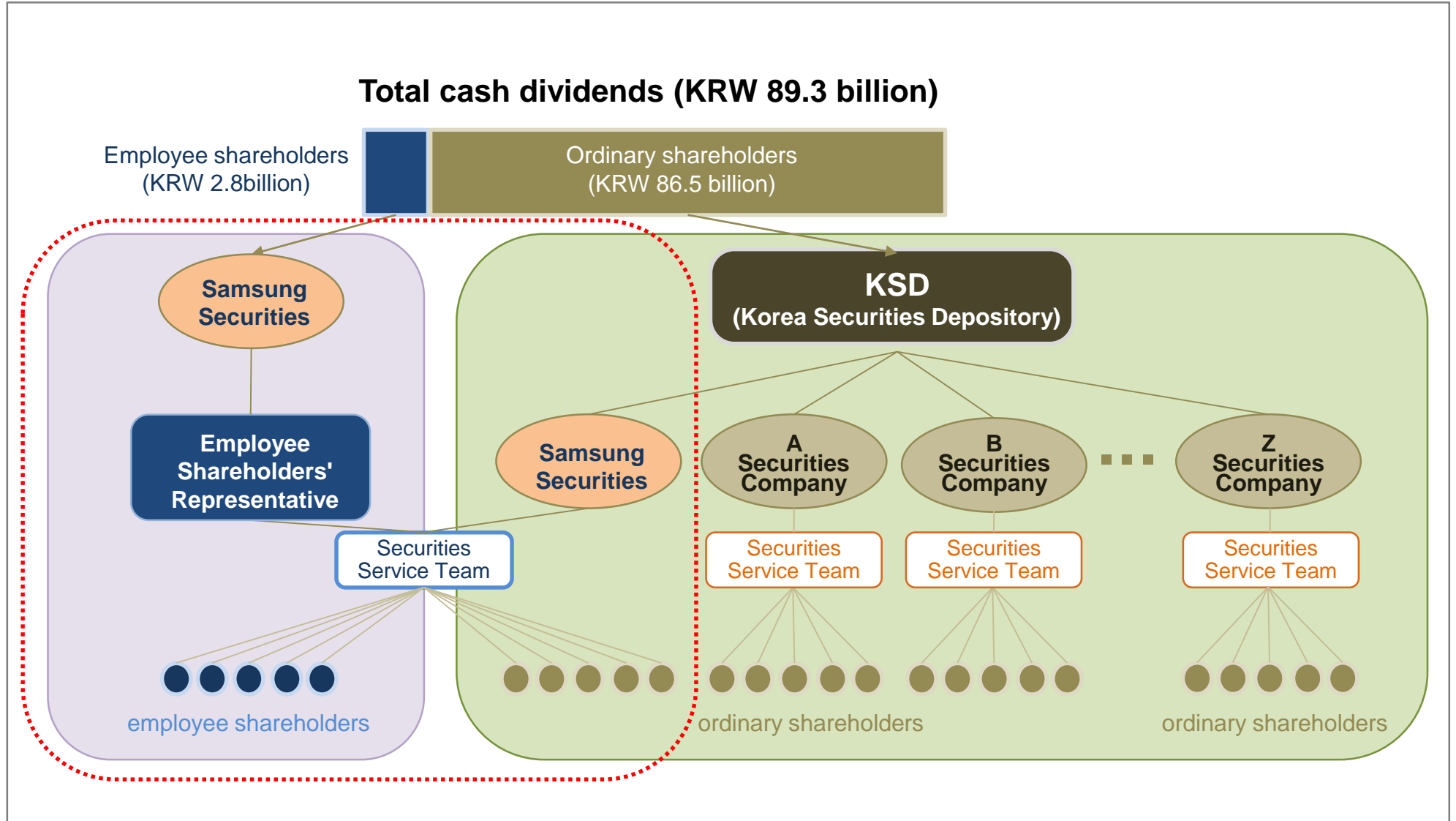
[Screen : Supervisor's Approval]

승인	권리구분	종목명	보유수량	입금	주식입고
<input type="checkbox"/>	배당	금강공업	0	0	0
<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	0	0
<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

[Note] ESOP dividend distribution process



② Immediate Actions



Meet Settlement Obligation

- ✓ Received warrant of attorney from the employees who sold the shares to purchase around 2.6 million shares from the market and borrowed 2.4 million shares from institutions to **meet the T+2 settlement obligations**

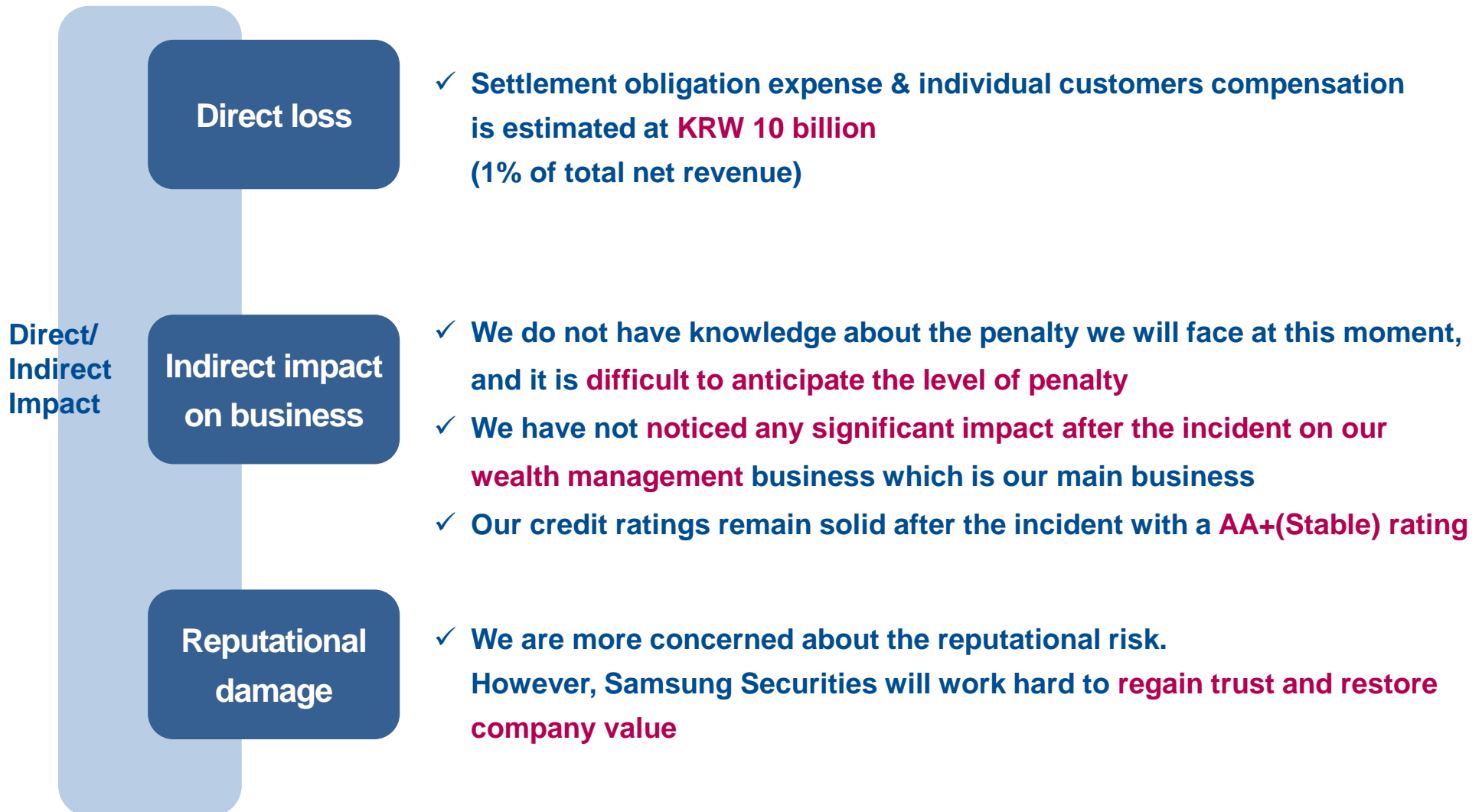
Investor Damage Relief

- ✓ Immediately set up the 『**investor damage relief task force**』 and started to **compensate for individual customers' loss. Started to compensate clients for the loss with the difference between the highest price(KRW 39,800) during the day**
(Received total 1,494 compensation claims, actual no.of compensation case is 538, completed 486 cases/total amount compensated at KRW 0.41 billion as of May 14th)

Strengthen Internal Control System

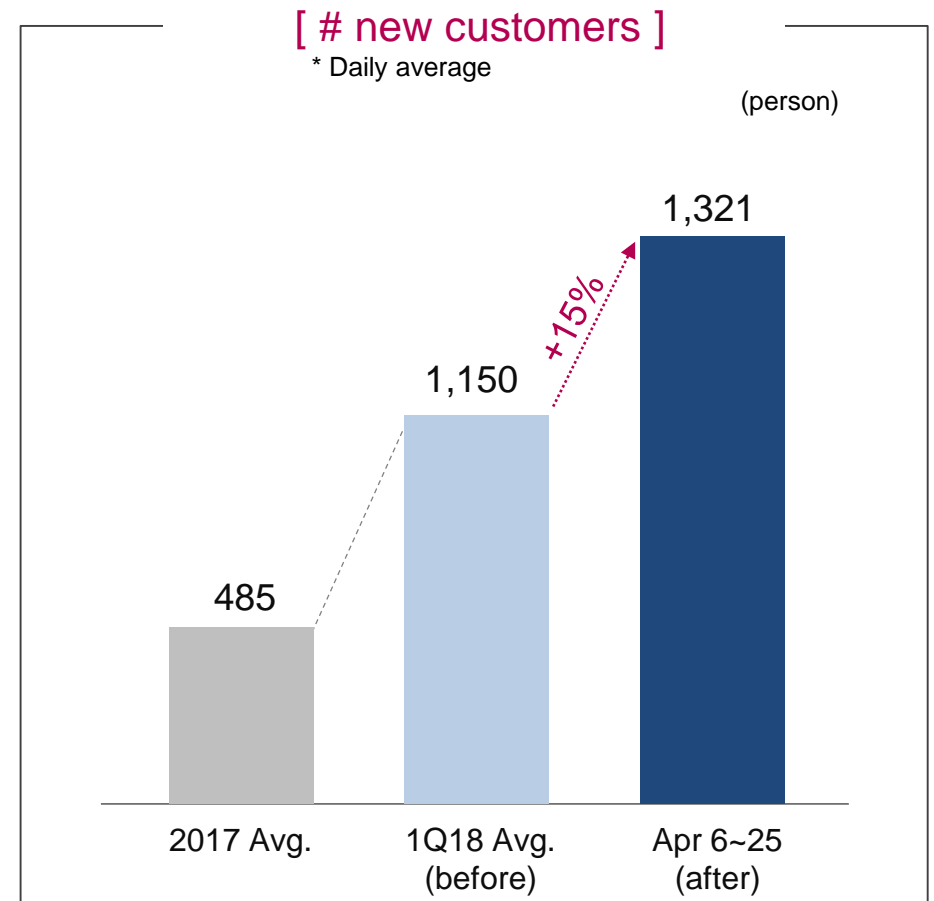
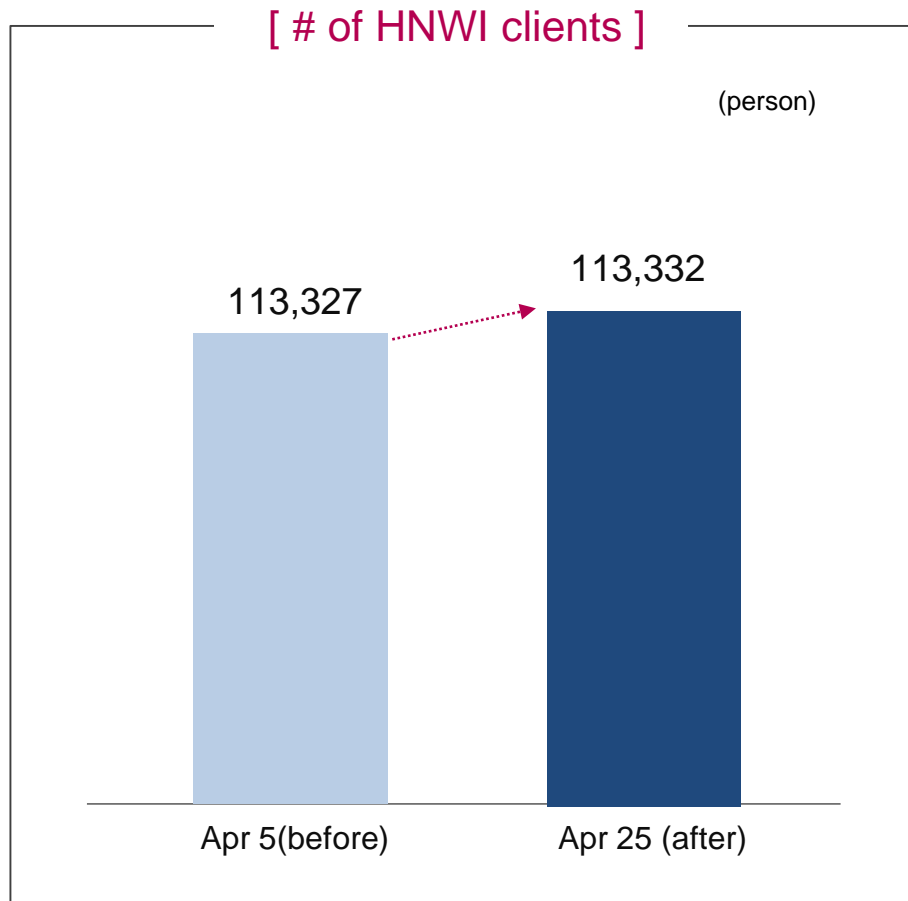
- ✓ **Limited employees' stock trading**
- ✓ **Also improved dividend payout management processes related to this incident**

③ Impact on company



[Note] Impact on retail client base

- HNWI client base continued to **increase steadily** after the incident



[Note] Limitations by Restrictions & Prior Cases

□ Financial authorities will impose a restriction according to the level of violation

Level	Restrictions	Prior Cases
Institutional Caution	<ul style="list-style-type: none"> No impact 	
Institutional Warning	<ul style="list-style-type: none"> No impact on current/new businesses Restricted from acquiring/establishing new financial companies for 1 year 	<ul style="list-style-type: none"> Firm K: Guaranteed major shareholders' promissory notes Firm E: Indirectly supported subsidiary's CP issuance
Business suspension (Partial/ Complete)	<ul style="list-style-type: none"> Suspension from related new business/operation Restrictions on certain new business license approval (Partial for 2 years/Complete for 3 years) Suspension from acquiring/establishing new financial companies for 3 years 	<p>(Partial)</p> <ul style="list-style-type: none"> Firm H: Illegal bond cross trading related to government funds <ul style="list-style-type: none"> Suspended from selling new bond wraps accounts (1 month) Firm D: Unfair sales of subsidiary CP's <ul style="list-style-type: none"> Suspended from reserving trusts which invest in corporate bonds and corporate bond brokerage (1 month) Firm L/ Firm K: Massive leak of customer data <ul style="list-style-type: none"> Suspended from gaining new customers and offering card loans (3 months) <p>(Complete)</p> <ul style="list-style-type: none"> Firm H : Loss due to option ordering error <ul style="list-style-type: none"> 6 months partial suspension → complete suspension → liquidation Firm Y: Embezzlement of company money and accounting fraud <ul style="list-style-type: none"> Complete suspension → liquidation

④ Ways to prevent recurrence of incident

Changed internal dividend payout process

- ✓ Separately manage dividend payment for employees and dividend payment for ordinary shareholders
 - ESOP: Finance team
 - Ordinary shareholders: Securities service team

Changes made to employee stock trading policy

- ✓ Dividend for employees shareholders will be paid to Cash Management Accounts instead of brokerage accounts
 - Shares cannot be transferred or traded through CMA accounts
- ✓ Stock trading by employees will be strictly restricted (adopting global best practice)
 - all transactions should be approved by compliance office prior to trading
 - should not sell shares within 30 days after buying
 - should not sell shares on the same day it is deposited
- ✓ ESOP dividend pay out process to be completely separated from the market trading

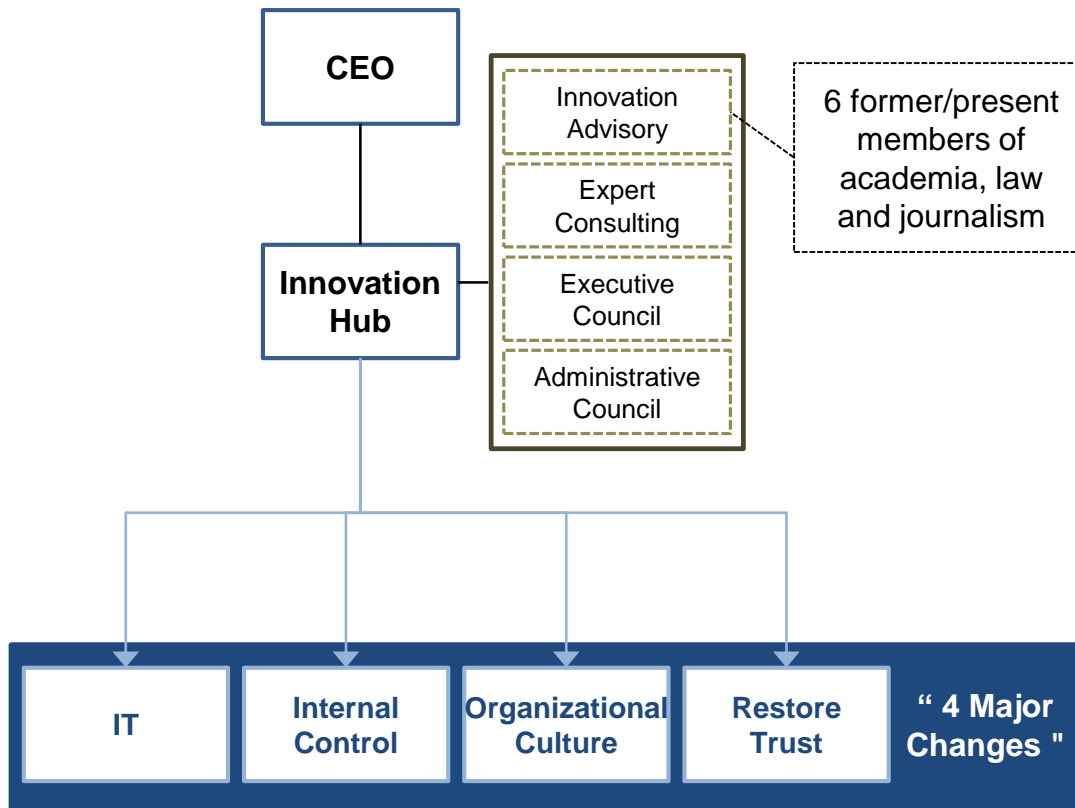
Suggestions on KRX trading regulation

- ✓ Suggest KRX to specify conditions to suspend share trading or cancel shares traded in a concrete manner
- ✓ Especially, a clause to cancel trading when a major trading error or IT accident needs to be included in the regulation

※ KRX disclosed that it was considering to introduce such processes

[Note] Changing Samsung Securities

- Established an Innovation Hub which directly reports to the CEO
The new organization will lead fundamental changes



[3 Major Tasks]

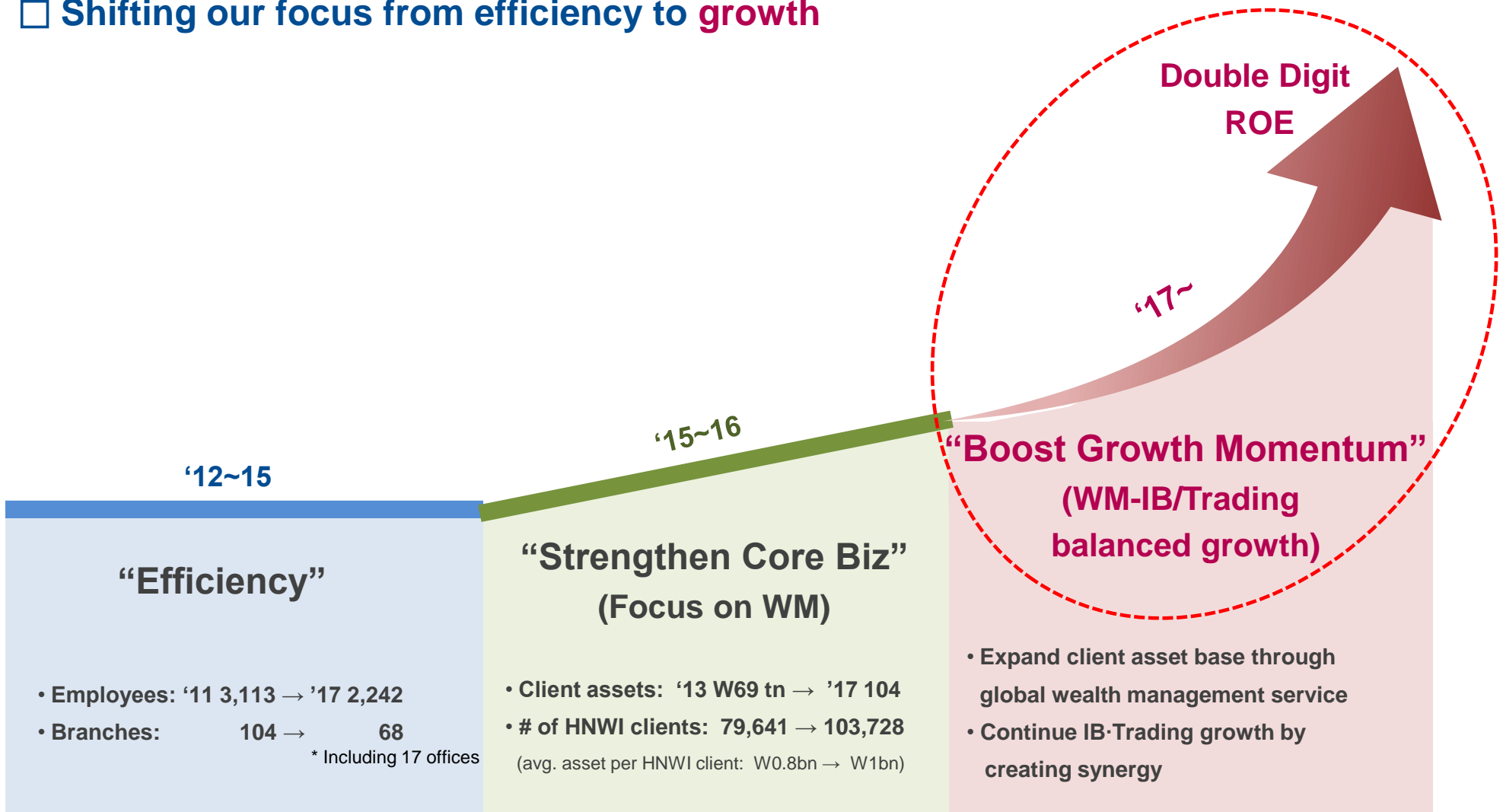
- ① Lead investor protection
 - Operate investor right protection council
- ② Enhance shareholder value
 - Management share buyback, Shareholder return etc.
- ③ Strengthen ethics
 - Implement global ethical management standard
 - Build 'Do Not Forget' center to remember and stay conscious

Summary of Recent ESOP Dividend Incident

Strategic Direction

① Strategic Direction

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

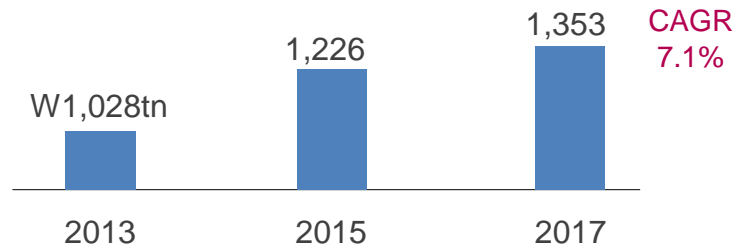


② Create WM-IB/Trading synergy : Market Environment

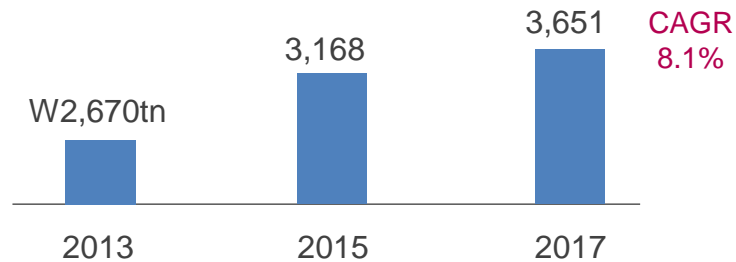
☐ Wealth shift : Household/Individuals → Corporation/Entrepreneurs

- Financial Asset Trend -

▶ Non-financial companies financial asset trend

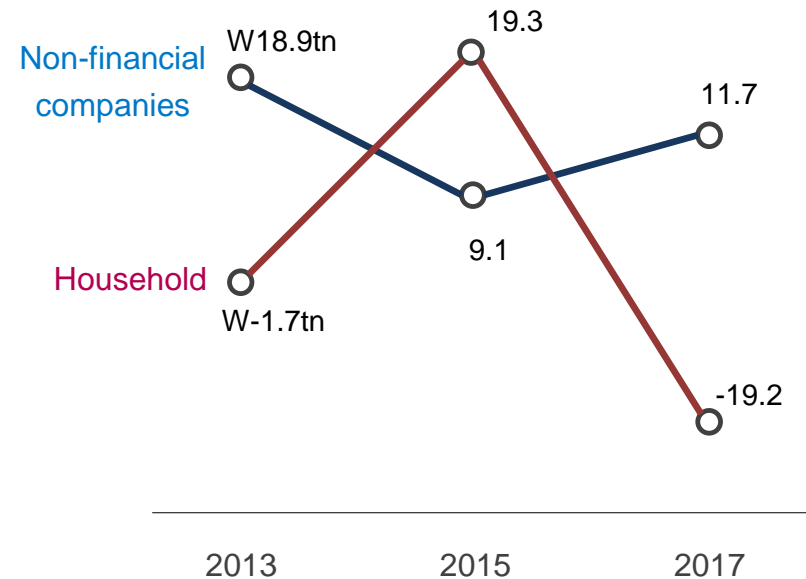


▶ Household financial asset trend



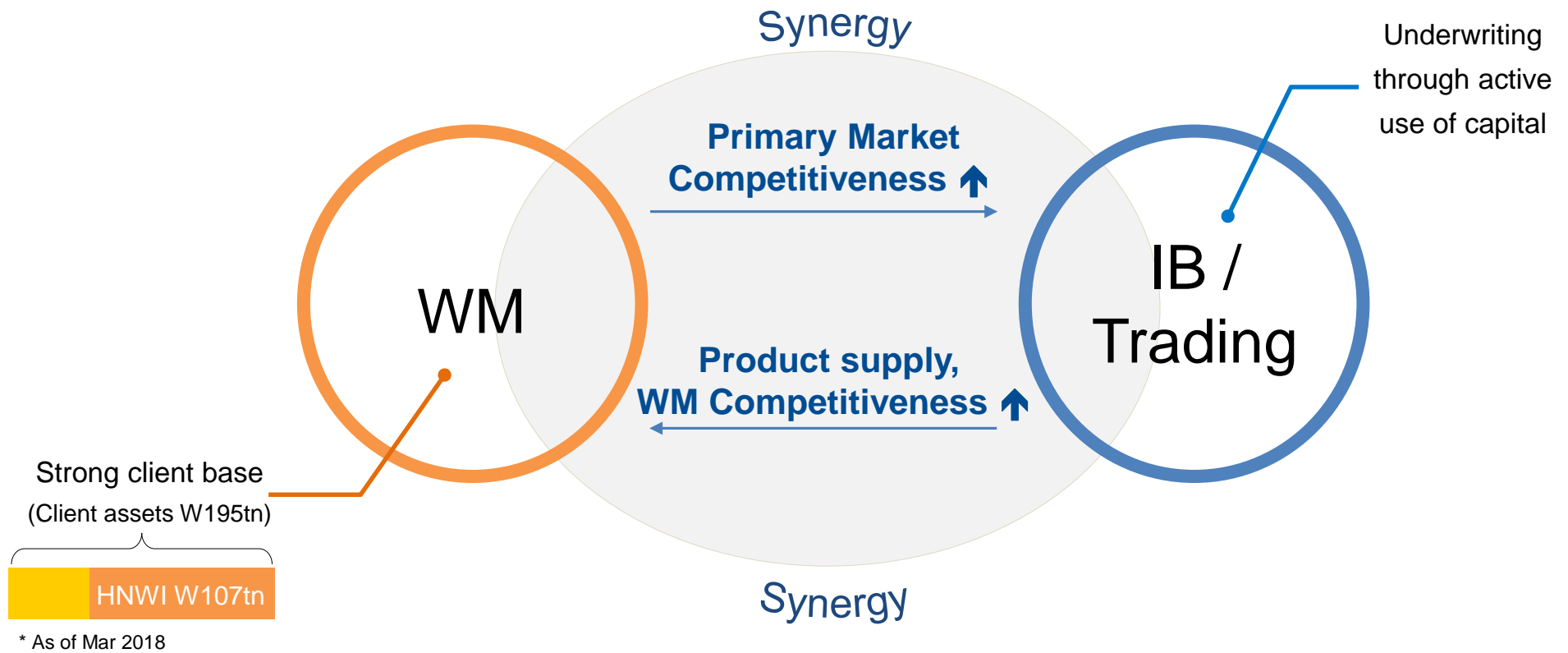
- Changes in Investment Asset -

* Securities, Fund, Bonds



② Create WM-IB/Trading synergy (continued)

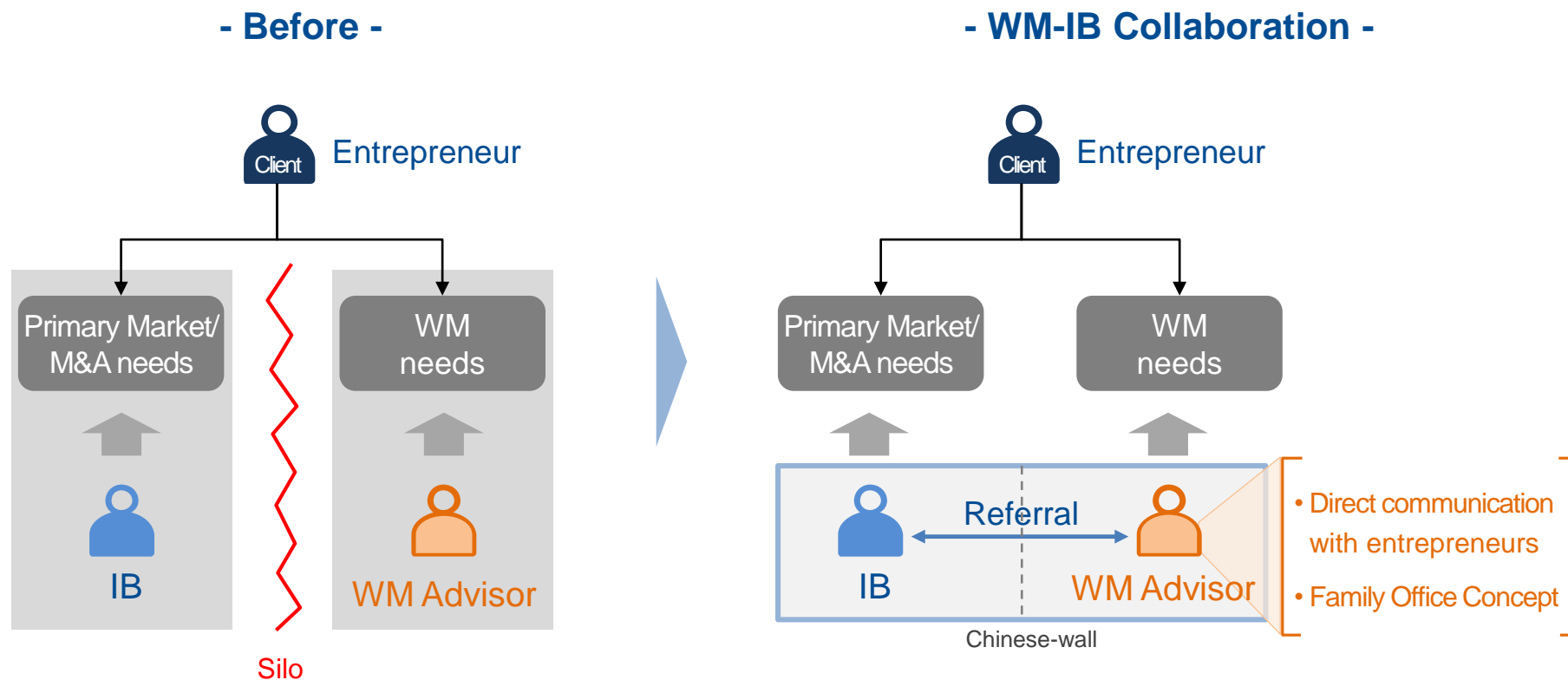
- Actively utilize strong client base and capital to strengthen underwriting and provide differentiated products to WM clients



② Create WM-IB/Trading synergy (continued)

□ Leverage relationship with entrepreneurs to penetrate corporate finance market

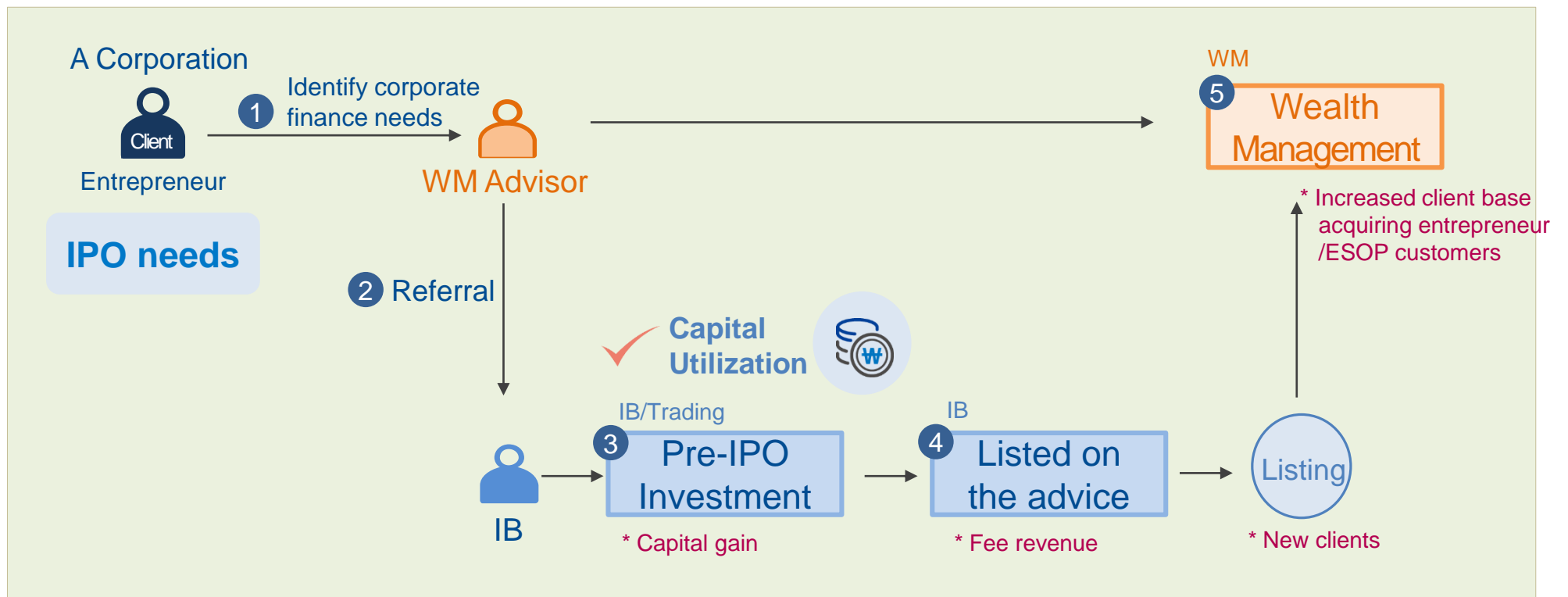
- ▶ Expand offerings by leveraging Samsung Securities' existing strengths
(Organization, IT system and global network etc.)



② Create WM-IB/Trading synergy (continued)

- Creating a virtuous cycle by establishing an ecosystem of entrepreneurs/corp.

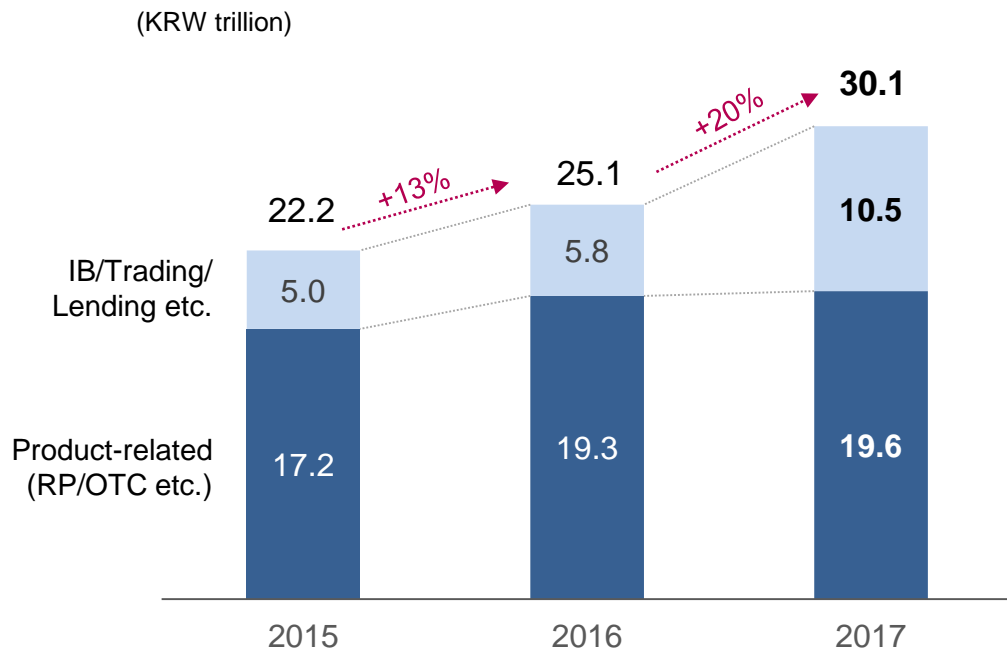
- Example of synergy -



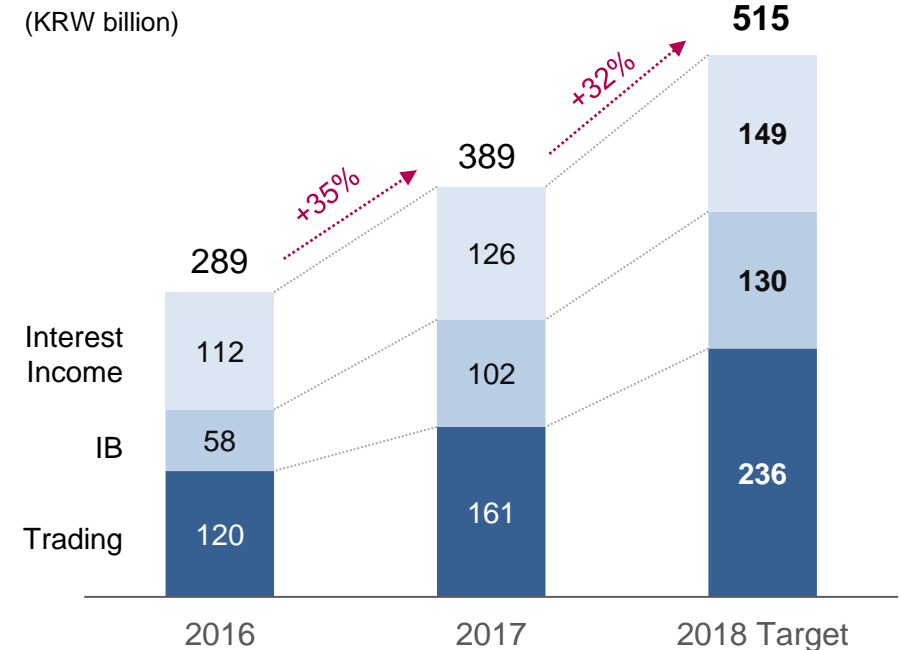
② Create WM- IB/Trading synergy (continued)

☐ Actively utilize capital to maximize profits

- Change in Capital Biz -



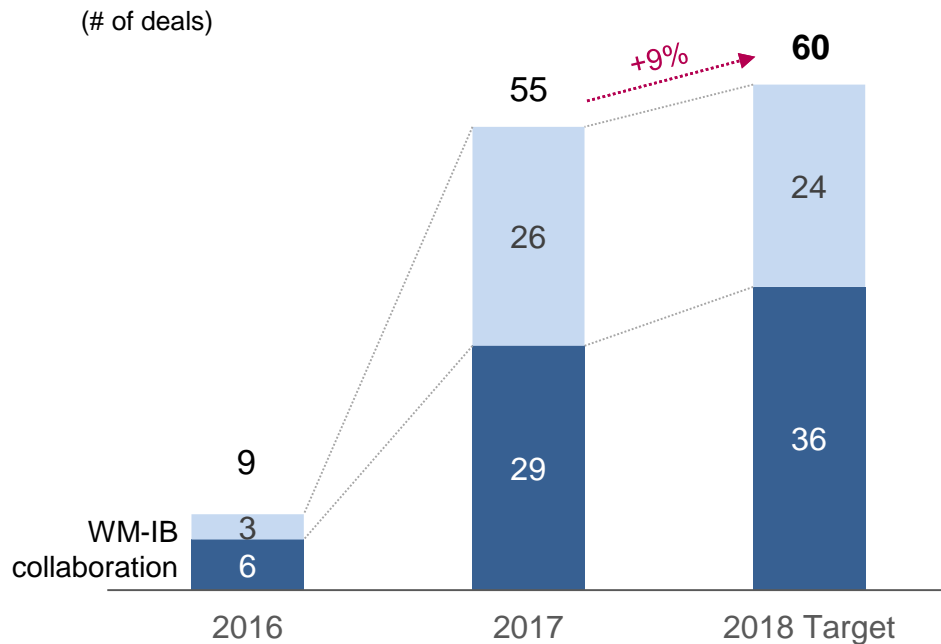
- Revenue from Capital Biz -



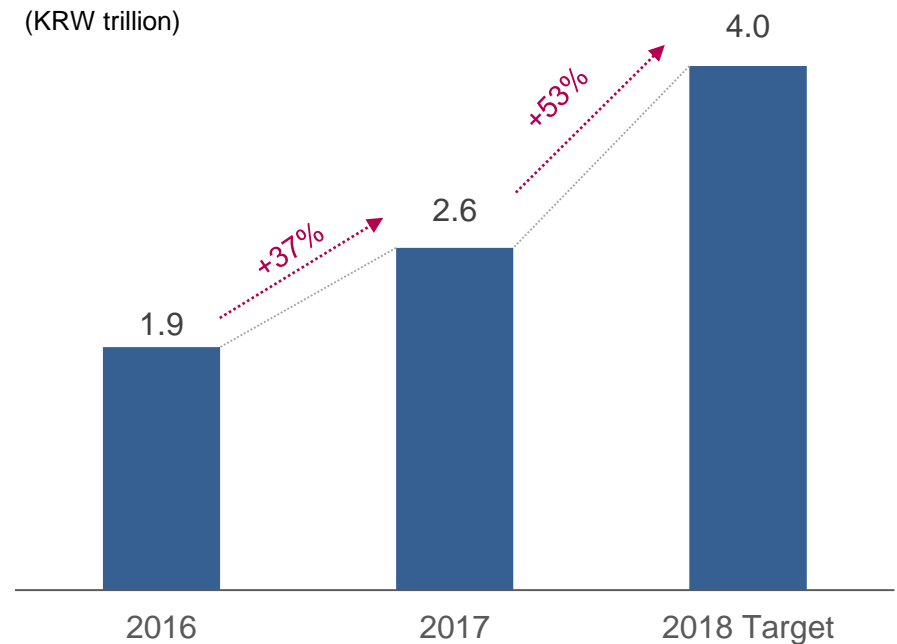
③ Create WM- IB/Trading synergy (continued)

□ Increase business opportunities through WM-IB referral

- Number of IPO Mandates -



- IB Driven Financial Products Sales -



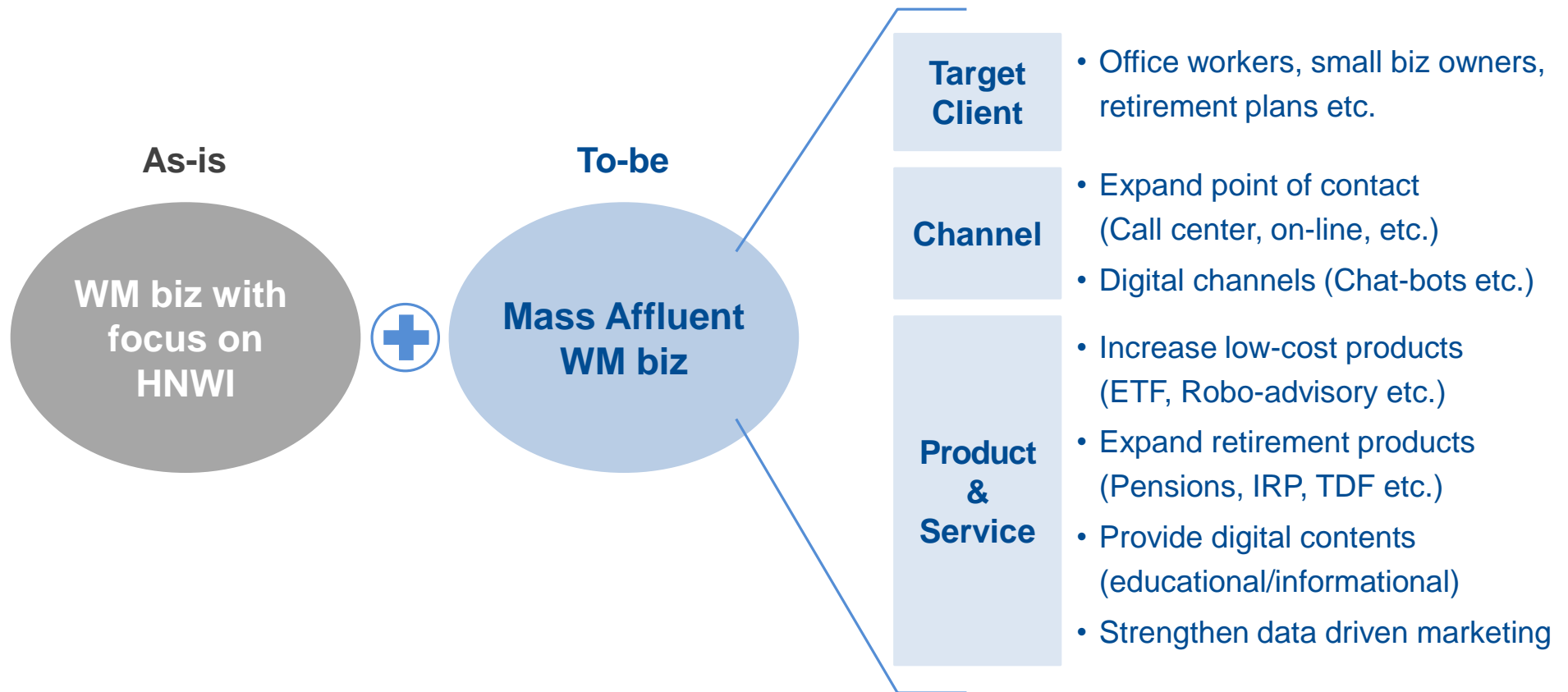
[Note] Global network

- Provide global research service and products through global alliance network and cross-border investment banking services such as M&A



③ Enhance WM business

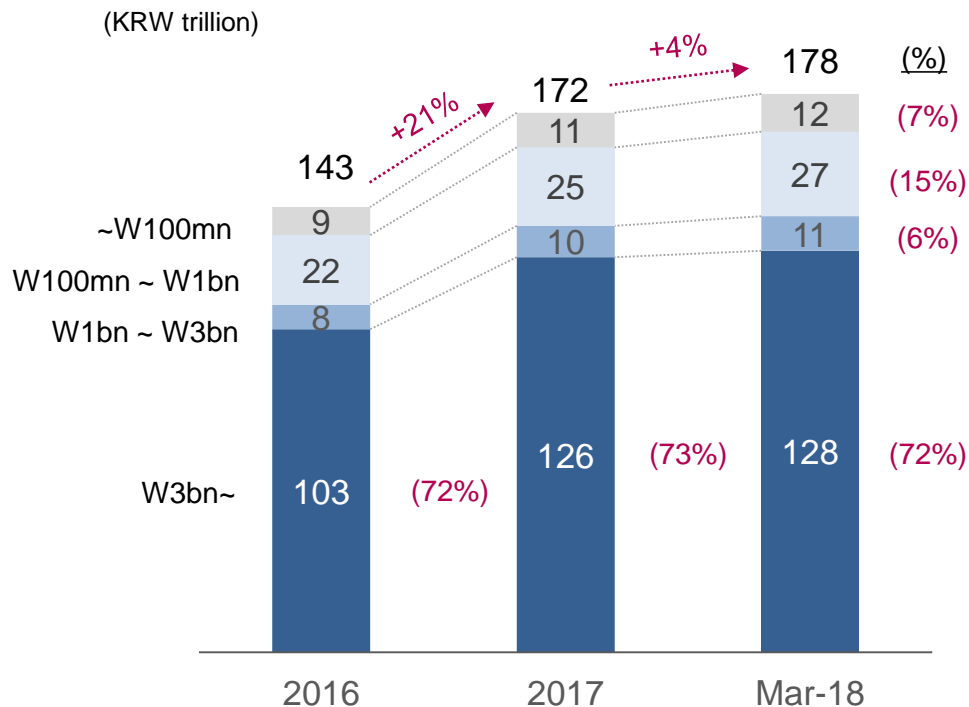
- Expand WM services to **mass affluent clients** capitalizing WM service capabilities for HNWI clients



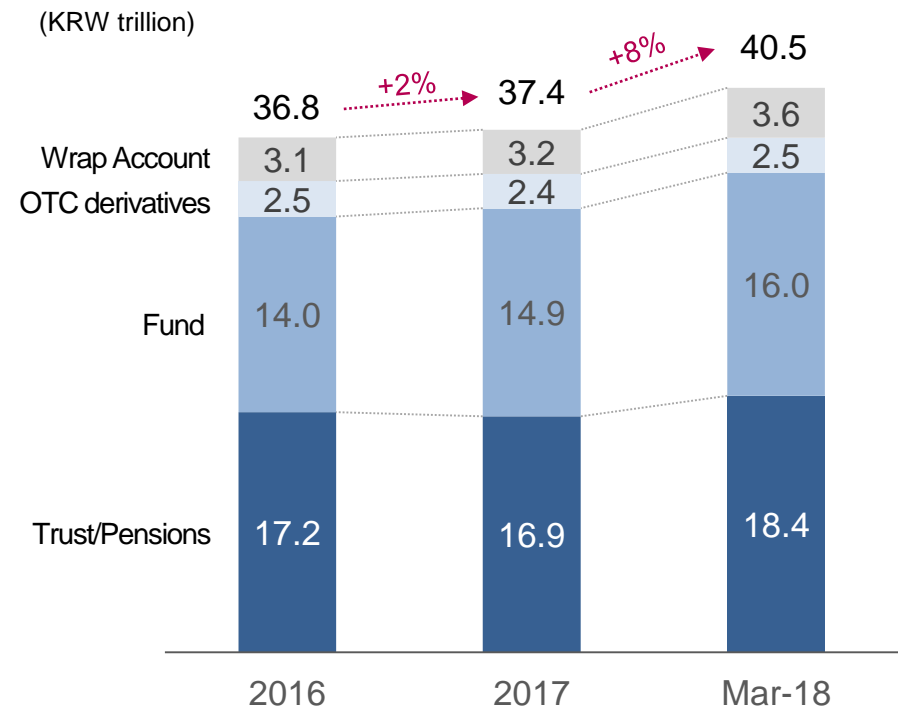
③ Enhance WM business (continued)

□ Increase new asset inflow & share of wallet

- Retail Client Assets -



- Financial Product Asset Balance -

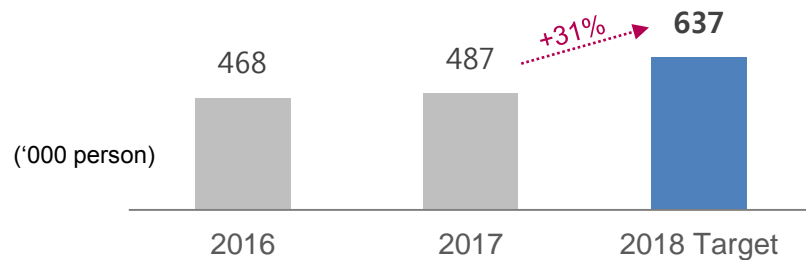


④ Enhance WM business (continued)

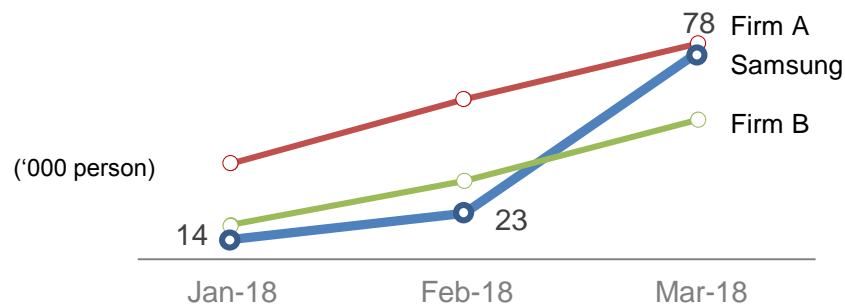
- Active marketing to increase non face-to-face clients acquisition, and cross-sell various financial products

- Non Face-to-Face Clients Base -

▶ Number of non face-to-face clients acquisition

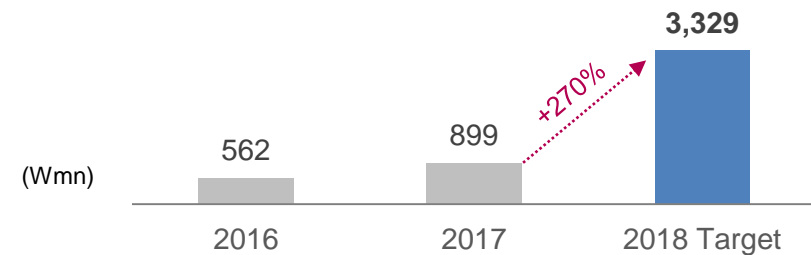


▶ Acquisition comparison in 2018 (accumulated)

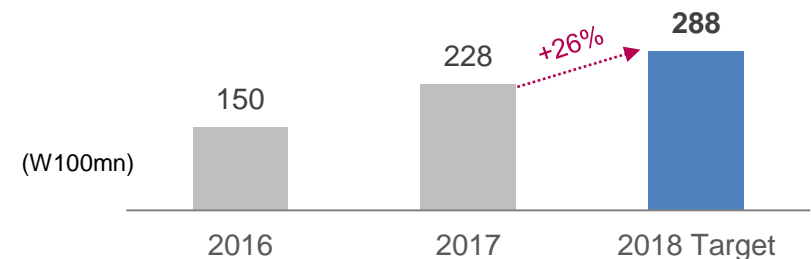


- Overseas Stock Brok. & Lending -

▶ Overseas stock brokerage revenue



▶ Margin loan revenue



Key Takeaway

Growth with Focus on ROE

- ✓ ROE is the target in itself, not the result
- ✓ ROE based performance management & evaluation
- ✓ Set mid-to-long term ROE targets and strive to meet targets

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