Grupo Security – Earnings Presentation 1Q22

Marcela Villafaña: Welcome. Thank you for joining Grupo Security's earnings presentation for the first quarter of 2022. You may either submit questions in the Q&A section so we can answer them in an orderly fashion or raise your hand at the end of the presentation.

To start, I'll leave you with Felipe Jaque, Chief Economist at Grupo Security.

Felipe Jaque (Chief Economist, Grupo Security)

Macroeconomic Recap 2021 (Slide 2)

The first quarter figures have confirmed the slowing pace of economic growth. After the 1.8% QoQ rise in seasonally adjusted GDP during the last quarter of 2021, we saw a drop of -0.3% QoQ in the first quarter of the year. Our outlooks continue to point towards continued deceleration in economic activity in upcoming quarters as a result of waning physical and monetary stimulus. In fact, the 2022 budget calls for a contraction of close to 20% in fiscal spending. Meanwhile, on the monetary side the Chilean Central Bank has increased the MPR to 8.25%, far above neutral levels, and there is still room for the benchmark rate to go as high as 9% given inflationary surprises.

The Chilean economy is receiving less external momentum than in 2021, a reflection of a deteriorating financial conditions index and weaker terms of trade. This should lead to a moderation of internal demand, which would result in a 1.5% rise in GDP for the entire year. This should contain the still de-anchored inflation expectations, which continue to hover around 5% for the next two-year period, the monetary policy horizon.

As for inflation, we have been continually surprised by increases throughout the first few months of the year in response to higher global raw material prices, exacerbated by the war, supply difficulties and currency depreciation. Against this backdrop, the CPI variation should be around 10% by December of this year. For 2023, inflation is expected to dwindle to around 3%.

All of the above should occur in a context of heightened local uncertainty as a result of the constitutional constituent process, which has closely contained investment due to potential significant changes in the institutional, political and regulatory framework. In addition, there is considerably apprehension surrounding the effects of tax, labor, pension and health reforms that the new administration will attempt to pass.

From the external front, there are three main sources of uncertainty. China's zero-COVID policy increased lockdowns, thus affecting economic outlooks. Meanwhile, persisting inflation drove the U.S. Federal Reserve to withdraw monetary stimulus more quickly than anticipated a few months ago, with 50 bps adjustments in May and probably in June and July also. Lastly, the conflict between Russia and Ukraine has continued to affect raw material prices, especially food and fuel, and to disrupt the supply chain.

Fernando Salinas

Grupo Security March 2022 (Slide 3)

Grupo Security reported profit of MCH $30,065 for the first quarter of 2022, 24% greater than 1Q21. The group's profit of MCH $94,317 for the last twelve months is noteworthy, up 13.6% from March 2021.

Banco Security's consolidated profit for 1Q21 was MCH $25,522, an increase of 51.1% over last year, explained by a larger net interest margin in the commercial areas and strong treasury results, both due to higher interest rates and inflation. Provisions for credit losses totaled MCH $16,074, 17.5% less than 2021, mostly due to lower expenses for the commercial portfolio.

Factoring Security had profit of MCH $3,631, 52.9% above March 2021, attributable to 15.5% growth in factored receivables, a larger spread and increased indexation income.

Meanwhile, Vida Security reported profit of MCH $13,315, despite more volatile markets and high inflation during the quarter. The company had premiums of MCH $111,587 as of March 2022, 61% greater than 2021, with market share of 7.6% in total premiums written and 10.1% in annuities.

As planned, Travel Security reversed the loss of -MCH$303 from 2021 for a positive bottom line of MCH$401, with a gradual recovery in sales. Inmobiliaria Security reported profit of MCH $307, 78% less due to legal title transferred on fewer units, in line with the current investment cycle.

In Peru, Protecta Security had profit of MS./ 5.2, well above the MS./ 0.5 from 1Q21, thanks to a solid 75% rise in investment income over last year.

During the period, we focused on continuing to grow and consolidate our main businesses, improving our customers' experience with new channels and digital processes. We have successfully implemented transformation and efficiency projects in different areas of the organization thanks to a robust governance model used to execute and control each plan. We will continue to complement our existing business model by exploring possibilities to partner with or invest in local and global Fintechs.

I will now turn you over to Eduardo Olivares, Chief Executive Officer of Banco Security, to explain the Bank's results for 1Q22.

Eduardo Olivares (CEO, Banco Security)

Banco Security, Consolidated (Slide 4)

- Banco Security consolidated profit: MCH $25,522 for 1Q22, +51.1% YoY, with significant growth in the Treasury and Commercial Banking divisions, along with an improved net interest margin.
- In addition, the asset management subsidiaries reported profit of MCH $3,730, up 24.6% from 2021.
- ROAE for Banco Security: 14.4%
    - Peer banks: 17.9%
    - Industry: 26.8%

Total loans: BCH $6,774 for 1Q21 (+7.9% YoY) (+9.7% YoY for industry excluding foreign subsidiaries)

Commercial loans: BCH $5,489, +7.6% YoY (industry +8.4%, +7.0% excluding foreign subsidiaries)

Retail loans: BCH $1,285, +9.7% YoY (industry +13.3%, +12.7% excluding foreign subsidiaries)

- Consumer loans: -1.2% YoY (industry +12.8%, +12.4 excluding foreign subsidiaries)
- Mortgage loans: +16.2% YoY (industry +13.5%, +12.8% excluding foreign subsidiaries)

Ratio of net interest margin to loans grew 97 points YoY, or 4.0% of loans, driven by high interest rates and inflation.

Along with changes in the Compendium of Accounting Standards for Banks, the regulator also modified the efficiency ratio that it regularly publishes. The new calculation considers total operating expenses over total operating income. Based on this indicator, Banco Security reported efficiency of 50.7% for 1Q22, versus 48.8% for 1Q21.

- Peers: 45.6% (Dec-21)
- Industry: 41.7% (Dec-21)

Using the former efficiency calculation, which does not consider operating expenses in the numerator and includes recovered loans in the denominator, among other minor differences, Security's efficiency ratio was 45.0% for 1Q22, below last year's 46.6%.

Banco Security – Results by Business Area (Slide 5)

Results by area:

Commercial Banking: profit of MCH $10,469 for 1Q22, MCH $5,350 greater than 2021, explained mainly by the improved net interest margin and stable risk expenses year on year.

- Net interest margin: MCH $33,290 (+36.8% YoY) due to a rise in income from liabilities because of interest rate hikes (average MPR of 5.1% for 1Q22 vs 0.5% for 1Q21) and a larger volume of current account and other demand deposits.
- Support expenses: MCH $13,986 (+40.0% YoY) due to commercial bonuses, structural adjustments in support areas and higher corporate expenses by the Digital Area.
- Net fees and commissions: MCH $5,395 (-0.1% YoY), stable year on year.

Retail Banking: Profit of MCH $2,007 for 1Q22, (vs loss of -MCH $1,254 for 1Q21). The division is beginning to see the results of the transformation efforts over the last two years, which adjusted customer service models in order to improve the customer experience and drive business.

- Net interest margin: MCH $15,741 (+24.9% YoY) due to growth in income from liabilities mainly because of interest rate hikes (average MPR of 5.1% for 1Q22 vs 0.5% for 1Q21) and a larger volume of current account and other demand deposits.
- Net fees and commissions: MCH $3,625 (+30.8% YoY) due to increased activity in credit and debit cards and commissions from supplementary loan insurance products.
- Risk expenses: MCH $2,873 (-29.3% YoY) explained by a high basis of comparison in commercial loans in the Retail Banking Division.

- Support expenses: +14.3% YoY, due to commercial bonuses, structural adjustments in support areas and higher corporate expenses by the Digital Area.

I will now turn you over to Nicolás Ugarte, the Bank's Finance Division Manager, who will give you more details on the Treasury Division's results.

Nicolás Ugarte (Finance Division Manager, Banco Security)

Banco Security – Treasury (Slide 6)

Treasury: Profit of MCH $16,811 (+38.4% YoY)

- Balance Sheet Desk: Revenue of MCH $22,417 (71% of Treasury Division revenue), +MCH $13,361 YoY, principally due to:
    - Low interest rate risk for bond placements in 2020 and 2021 (MUF 21), before the rate hike in the last few months
    - Increase in mismatch in third and fourth quarter 2021 given higher inflation expectations
    - This generated a larger net interest margin in relation to March 2021.
- Investment and Trading Desk: Revenue of MCH $5,303 (17% of Treasury Division revenue), -MCH $2,419 YoY, principally due to:
    - Lower brokerage revenue, explained in part by reduction in portfolio in second half of 2021, making March 2021 a high basis of comparison.
    - A good spread in portfolios and increased indexation.
- Distribution Desk: Revenue of MCH $3,932 (16% of Treasury Division revenue),+ MCH $1,584 YoY, due to:
    - Complex year for derivatives deals.
    - Strong revenue from currency trading and market making, which fully mitigated drop in derivatives.

Now Alberto Oviedo, Credit Risk Division Manager for Banco Security, will explain the Bank's strategy and results for the period in detail.

Alberto Oviedo (Risk Division Manager)

Banco Security – Risk (Slide 7)

The PCL ratio reached 0.95% of total loans in the first quarter. 1Q22 provisions for credit losses (PCL) reached MCH $16,074, 17.5% lower than 1Q21, due to reduced risk expenses in the commercial loan portfolio (MCH $13,995), driven by collections of written off loans (+192.6% YoY) and a smaller increase in allowances for loan losses (-10.1% YoY). The previous effect was partially offset by the increase in allowances for loan losses on retail loans (MCH $2,731 1Q22, 59.7% above 1Q21.

The Bank recorded additional provisions during the first quarter of 2022 of MCH $1,200: MCH $500 for the commercial portfolio, MCH $500 for the consumer portfolio and MCH $200 for the mortgage portfolio.

The NPL portfolio reached MCH $143,174 as of March 2022, up 22.5% YoY. To date, the NPL portfolio represents 2.1% of loans, a rise from 1.46% in March 2021, giving an NPL coverage ratio of 1.18, or 1.25 including additional provisions.

Marcela Villafaña (Investor Relations and Strategic Development Manager)

Asset Management (Slide 8)

The asset management area, comprised of the mutual fund subsidiary (AGF), the brokerage subsidiary (Valores) and Securitizadora Security—had assets under management of BCH $3,833, or 11.0% lower than March 2021, due to a decrease in mutual funds under management, primarily domestic short- and long-term fixed-income instruments and balanced funds, partly offset by greater AUM in international custody.

The area had profit of MCH $4,084 for 1Q22, thanks to improved results from AGF Security, of MCH $2,572, up 79.4% from 1Q21, due to improved returns on the proprietary trading portfolio.

The area had operating income of MCH $9,274 for 1Q21, stable YoY, with increased income from funds due to a larger ROA, offset by a decrease in transactional income, in particular from stocks and local fixed-income instruments.

It reported non-operating income of MCH $3,121, doubling last year's figure, due to higher interest rates during the period, while total expenses reached MCH $8,403 (-2.6% YoY), stable year on year.

Factoring Security (Slide 9)

Profit totaled MCH $3,631, up 52.9% from 1Q21. Net operating income increased 40.3%, due to a 15.5% rise in the volume of factored receivables, a larger portfolio spread and greater indexation income. This effect was partially offset by greater banking expenses related to higher interest rates.

Support expenses climbed to MCH $3,174 (+23.0% YoY) mainly due to higher payroll expenses because of cost-of-living adjustments over the past twelve months, bonus payments and structural adjustments. Meanwhile, loan loss provision expenses reached 32.6% with respect to 1Q21 due to a larger volume of factored receivables.

It had an efficiency ratio of 36.9% as of March 2022, 521 bps less than last year, while the risk index, calculated as provisions over total factored receivables, was 1.4% versus 1.65% as of March 2021.

Now Rodrigo Guzmán, Finance and Administration Manager at Vida Security, will comment on the insurance company's results.

Rodrigo Guzmán (Finance and Administration Manager, Vida Security)

Vida Security (Slide 10)

Despite inflation levels and high market volatility, Vida Security reported profit of MCH $13,315 and premiums of MCH $111,587 for 1Q22, 61.2% greater than 1Q21, with market share of 7.6% in total premiums written and 10.1% in annuities.

It is important to bear in mind that the annuity market has contracted in a context of a higher rate defined for calculating programmed withdrawals offered by pension fund managers, which has boosted retirees' preference for programmed withdrawals. For example, during the year annuity sales rates averaged 3.58%, while the programmed withdrawal rate was 4.96%. Overall, as of March 2022, the industry had annuity premiums of MUF 14.8, doubling the level as of March 2021, but still below prior years.

In this context, Vida Security reported MCH $47,346 in gross written premiums, more than twice the figure from last year.

The variation in technical reserves was a positive MCH $18,317 (-MCH $14,827 for 1Q21) explained by negative investment results from the CUI and APV portfolios, which involved releasing technical reserves.

Claims and pensions paid totaled MCH $106,558, 72.5% greater than March 2021, because of an increase in annuities paid resulting from higher sales and an increase in surrenders and transfers in CUI and APV policies.

This explains the contribution margin of MCH $18,000 for 1Q22, compared to -MCH $11,510 for 1Q21.

Next, Juan Pablo Cofré, Investment Manager for Vida Security, will briefly comment on the portfolio results.

Juan Pablo Cofré (Investment Manager, Vida Security)

Vida Security - Investment Income (Slide 11)

Investment income was MCH $7,350, 81% less than 1Q21 due to weaker returns from the CUI and APV portfolio.

This portfolio reported a loss of -MCH $26,260 (+MCH $7,021 for 1Q21) due to improved returns from equities and indexes.

Meanwhile, the proprietary trading portfolio was up 5.2% year on year to MCH $33,610 for 1Q22, representing an ROI of 6.0%. During the period, it had greater returns from financial derivatives and local fixed-income assets and gains from exchange differences, offset by lower returns from alternative assets with respect to the same period last year.

Marcela Villafaña (Investor Relations and Strategic Development Manager)

Protecta Security (Slide 12)

In the international business area, Protecta Security had profit of MS./ 5.2 for 1Q22, up 987.8% from last year. This improved result can be explained by greater investment income, up 74.5% from 1Q21, partially offset by an increase in claims, related to a larger stock of pensions payable and indexation of pensions because of high inflation in Peru.

As of March, it had total premiums written of MS./ 158, with exceptional annuity growth of 20.8% with respect to the prior year and market share of 20.5%. Meanwhile, private annuities decreased 28.1% to MS./ 40.3 and market share of 13.5%.

Other Services Area (Slide 13)

As planned, Travel Security reversed the loss of MCH$303 from March 2021 for a positive bottom line of MCH$401 (consolidated with its subsidiary in Peru), with a gradual recovery in sales.

The real estate subsidiary reported profit of MCH $307, down 78.1% from March 2021, due to ownership transferred on a smaller number of units during the period, reaching 22 units during the year, or 42.1% fewer than last year, in line with the current investment cycle.

Real estate assets under management totaled MCH $73,138, falling 18.6% with respect to March 2021.

Fernando Salinas (Corporate Finance and Performance Manager)

Closing Slide (Slide 14)

Overall, Grupo Security reported profit of MCH $30,065, an increase of 24% over 1Q21. Meanwhile, LTM profit was MCH $94,317, an all-time high for the Group.

However, based on its May 19th price, its stock had a market-to-book ratio of 0.54 and a price-to-earnings ratio of 5.1, below its historical averages.

Recently Grupo Security distributed a dividend that, coupled with the dividend from October, is equivalent to 63% of profit from 2021, in line with historical distributions of around 50-60% of profit. This dividend represents a dividend yield of 11.9%, the highest in the last ten years.

For the year 2022, we will continue to implement our transformation plans, improving the experience of our customers through new channels and process digitalization. In addition, we will continue to explore possibilities to partner with or invest in local and global Fintechs. Lastly, we will evaluate new opportunities to strengthen the Group's Digital Area, with assistance from international consultants and the Monument Bank team.

Questions from Last Call

Q&A for Grupo Security's Earnings Conference Call for 4Q21 and 2021

Renato Peñafiel (CEO Grupo Security)

Picking up from what Fernando was saying, as you can see each of the companies has seen major changes in its income statement and, as a result, in its general structure and spending levels. We think this is the product of lengthy work since we have been on this mission for three years, which gives us peace of mind and optimism regarding future results.

If you recall, three years ago we mentioned that we wanted to grow at rates of 10% net of taxes. We wanted to grow at rates equal to or greater than 10% and we have proudly accomplished that. With that same vision, we think that 2022 earnings should fluctuate between 10% and 15% above last year’s figures. Some surprises could surface, just like last year’s special rates of return, but we should continue to grow around those levels.

Q1: What is expected for the commercial portfolio in the current context of political uncertainty, rising interest rates and inflation?

Eduardo Olivares

Companies are probably being more cautious when making investment decisions. We see that in pipelines; in general there is more caution. The economy has calmed down after the pandemic, reflected in the existing instruments. We participated in the process of selecting those instruments, but that does not stop our customers from having higher debt levels in some cases.

We are seeing deceleration in pipelines. There will be fewer deals and inflation is probably going to affect debt. In our case, we follow a risk policy of generating a little more risk in portfolios but with good collateral coverage, which has probably been seen less over the past two years. The pandemic has slowed all court efforts to recover assets, etc., but we should see a little more risk at the margin. Our portfolio's collateral coverage ratios should be sufficient and, also, we are adjusting credit policies to adapt to economic changes that lead to lower activity levels. Growth will probably be lower than we have seen up to now, although the international economy should add even more uncertainty.

Alberto Oviedo

I would add that because of the general rise in interest rates, debt ratios that used to be tolerable are now less so and there we should see numerous companies deleveraging at a global level. That does not mean that investments should not be maintained in some sectors, but we believe that business is going to be tighter because, in a scenario of higher rates, companies should tend to decrease their debt-to-capital ratio.

Q3: With the rise in short-term rates, should we anticipate an improvement in Factoring’s results? What do you expect from the portfolio in 2022?

Fernando Salinas

We are anticipating around 11% growth in factored receivables and a larger spread, which effectively is reflecting this phenomenon of short-term rates and is implicit in budgets, so effectively we expect activity levels to be slightly higher at the spread level.

Q4: Can you comment on the impact of the US decline in international investments thus far in 2022? And what returns on assets should we see in 2022?

Rodrigo Guzmán

The truth is that it is hard to forecast returns. The only thing we can say is that 2021 was an extraordinary year in terms of returns. It is also important to mention that our investments abroad are low-volatility alternative assets (i.e. they are not linked to the ups and downs of the spot stock market and, therefore, one sees larger or smaller returns, but with much less volatility than we see in spot markets because of, for instance, what is happening today in Ukraine. We expect to continue to see better or good returns for the first quarter of this year. However, it is hard to forecast what is going to happen in the second, third or fourth quarter of the year because it will depend on several factors: rates, the duration of the conflict, etc. But we have invested in alternative assets with low volatility, so they don't have the volatility of equities and, because of this, we think our results will be moderated.

Q5: What can we expect from fees and commissions in 2022? Can you give us any guidance for 2022?

Eduardo Olivares

Fees and commissions from payment media should grow as activity returns to normal. In 2020 we saw an important change that turned around because of online commerce despite brick and mortar stores closing. We anticipate a slight recovery in consumer loans, and more so towards the end of the year. These loans have commissions from the related insurance products. Fees and commissions in the Commercial Banking Division should be a little tighter, to the extent that there are delays in investment or financing projects, which typically involve structuring, commissions and some derivative products.

On the spending side, we should see some changes in payroll. The Bank's commissions are linked to activity. Some should grow if activity levels return to normal and payment media and other products will likely be the most affected.

Q6: Do you see investment in the LTR curve as a omen of future recession? (difference 10Y-2Y).

Felipe Jaque

Although this is used as a barometer in other developed economies like the US, it tends to function relatively well as a sign of how activity will slow in the future. In Chile it is a little noisier. Lately, it has two components that I think need to be monitored in local rates. One, public debt levels, the government's issuance levels, place some important additional risk on long-term rates that, in our opinion, are even below what we could see at year-end 2022. On the other hand, there is some concern as to where short-term rates will land, the neutral monetary policy rate with which the system is operating. There is considerable apprehension about whether there is one sole long-term neutral rate or whether our de-anchored inflation expectations, such as 4.5% to 5% for a 24-month horizon, imply that that rate, at which the short-term market is in equilibrium, is higher. Thus, two components are currently making a lot of noise. First, that short-term rates close to 8.5% and even approaching

9% in some horizons take that investment from the more marked curve and, second, that there is genuine doubt as to whether we are going to converge towards lower rates in the medium term. With that said, mathematically speaking, the growth numbers for the second half of the year are negative quarter on quarter in our growth forecast of 1.5 for this year.

Q7: Can you touch on the trends for this first quarter and then comment a bit on the stock price, how it has moved and what to expect in dividends, despite the fact that it will be announced soon. And comment a little about the share buyback program.

Renato Peñafiel

Regarding this quarter, as you know, some information cannot be disclosed. In the first quarter of last year, the group had profit of over 20 billion Chilean pesos. Given our comments at the beginning regarding the transformation, modernization and spending structure adjustment programs, the first quarter of this year we should see higher earnings than last year. That is consistent with earnings growth of around 10% to 15% for the full year 2022.

As Fernando was saying, the stock price does not reflect our earnings growth in recent years. This situation is not particular to us, as it has been seen elsewhere in the market in recent years. We believe that the stock price does not reflect its true economic value and is not strictly related to the company, but rather to the market situation.

Some institutional investors like investment funds have had to make adjustments, such as selling shares, including Security.

Regarding dividends, historically the Group always looks first at its companies' capitalization. Today the bank, the insurance company and the other units are fully capitalized and in a short time we have achieved higher profit levels. As a result, we hope to maintain these subsidiaries' policies for dividends to the Group since their equity continues to be extraordinary solid. If that holds true, the Group could maintain dividends at the historical range of 60-65%, but that decision will be made by the shareholders.

As for the share buyback program, the Group's board agreed to repurchase up to 5% and the shareholders authorized this at the last AGM. According to regulations, the Group can only acquire up to 1% of that 5% on the market, which it completed last month in February. To buy back additional amounts during the year, it has to repurchase blocks, a decision that will be evaluated during the year.

Marcela Villafaña

I would like to add that as of year-end December, the Group had purchased more than 38 million shares and to date it has purchased almost 47 million shares. Of these, 40 million, or 1%, were purchased on the market through the daily format mentioned by Renato and 0.16% through a small block purchase in December. We have now repurchased 1.16% of shares. Purchases do not happen every day. We gave our broker a mandate to determine when to purchase. At this time, we have already reached the maximum 1% for the year and, therefore, no more daily purchases will be made.

Q8: Finally, the last question is related to the Group's covenant. What steps do you plan to take to decrease the indebtedness ratio, which is close to its permitted maximum.

The indebtedness ratio is at levels similar to prior years. If you look at our financial statements and our presentations, you can see that it is in line with historical figures and has not deviated from that.

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