Grupo Security – Earnings Presentation 2Q22

Marcela Villafaña (IR and Strategic Development Manager)

Introduction (Slide 1)

Good afternoon and thank you for joining us for Grupo Security's earnings presentation for the six months ended June 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.

Here with us today are Eduardo Olivares, CEO of Banco Security, Alberto Oviedo from the Risk Division and Manuel Widow from Planning and Management, to help answer questions. From the insurance subsidiary, Vida Security, we have Juan Pablo Cofré, Investment Manager, and Luis Miranda, Performance Control Manager. After discussing our earnings, Grupo Security's Digital Manager Francisco Letelier will present the digital strategy that we are working on and the concrete impacts that we hope to achieve.

Presentation Fernando Salinas (Slide 2)

I would like to introduce Fernando Salinas Pinto, Grupo Security's new Chief Executive Officer. Fernando has a degree in business administration and an MBA from Pontificia Universidad Católica and also completed the executive program at Stanford University. He has over 25 years' experience in corporate finance, M&A, investor relations, new business development, strategic planning and performance management.

He has been with Grupo Security for almost 20 years as Planning and Development Manager and then Corporate Finance and Performance Manager, reporting directly to the CEO. During this time, he played an important role in overseeing the budget and performance management departments of all subsidiaries, as well as the strategic initiatives carried out by the various companies. He was involved in building executive compensation models, new business valuations and capital structure decisions.

I will now leave you with Fernando, who will present the earnings figures for the first half of the year.

Fernando Salinas (CEO Grupo Security)

Grupo Security June 2022 (Slide 3)

For 6M22, Grupo Security reported profit of MCH$66,948, up 65% from June 2021, with profit of MCH$100,241 from its business areas.

These results were led by the lending area, with profit of MCH$66,154, which consists of Banco Security's results excluding its asset management subsidiaries and Factoring Security.

The main contribution to the Bank's results was from the Commercial Banking Division, with profit of MCH$33,494. These results are due to growth in the net interest margin because of high inflation, a 12.8% increase in commercial loans and a 19% reduction in risk expenses.

Meanwhile, the Treasury Division reported profit of MCH$29,413 for 6M2022, explained by a larger net interest margin due to interest rate hikes and higher inflation during the period.

The Retail Banking Division had profit of MCH$3,761, thus reversing prior year losses and demonstrating the outcomes of its transformation efforts over the past few years.

As for Factoring Security, it reported profit of MCH$7,204 thanks to a 20.7% rise in factored receivables, a larger spread and indexation income.

Inversiones Security enjoyed profit of MCH$9,761 with a total of BCH$4,090 in assets under management. These improved results for the period are explained by better returns on the proprietary trading portfolio and as-planned operating revenue.

Regarding Vida Security, it reported profit of MCH$24,420 for 6M22, despite the volatility of financial markets and high inflation during the period. This result is explained mostly by improved returns from the proprietary trading portfolio.

As for the other services area, Travel Security saw a recovery in sales with profit of MCH$1,661, nearing pre-pandemic levels in the second quarter and reversing the loss of MCH$278 from 6M21. Inmobiliaria Security reported profit of MCH$169, 92.7% less due to legal title transferred on fewer units, in line with the current investment cycle.

Lastly, Protecta Security obtained profit of MS./10.1 in Peru, up 6.4% from 2021, explained by a 52.8% rise in investment income over last year. Bear in mind that converting results in soles to IFRS used in Chile and adjusting for the varied accounting criteria used in each country results in a different book-basis profit.

Now, Grupo Security's Chief Economist Felipe Jaque will give us a brief summary of the macroeconomic environment.

Felipe Jaque (Chief Economist, Grupo Security)

Macroeconomic Recap 2022 (Slide 4)

Since the fourth quarter of last year, the economy has decelerated as fiscal stimulus is withdrawn, with a real annual decline in public spending of around 16% during the first six months of the year. We have also seen the monetary policy rate climb from 4% in late 2021 to 9.75% today. Furthermore, there has been lower external momentum given the adjustment in terms of trade, down 6% thus far this year, accompanied by slowing global activity and fears of recession. Overall, activity levels, measured by the total and non-mining IMACEC, are virtually equal to year-end 2021 levels.

However, sector indicators linked to trade, construction and, to a smaller extent, manufacturing, show a more defined contraction in activity as of June 2022, which has been offset by sectors related to raw material exports and services. In this context, gaps have been closing more slowly than anticipated, despite the considerable normalization of liquidity. Likewise, loans have lost momentum after recovering sharply since the third quarter of the year, in particular for consumer and commercial loans.

However, outlooks for the second half of the year predict a drop in activity to close the year with annual growth of around 1.5%. This is based on adjustments shown by different sector indicators on activity and confidence, along with aggregate indicators (mainly unemployment), normalization of liquidity indicators, persistent high uncertainty levels and more restricted financing conditions that should act with the customary lag. In fact, estimates of recession (a drop in activity for two consecutive quarters) show an increase in likelihood for the next 12 months of around 80%, a scenario that also gains ground in projections for developed and emerging economies.

Meanwhile, global inflation expectations are beginning to yield considerably for the medium term in developed economies, but remain high for Chile (5.6% in 2023 and 4.5% in 2024), amidst annual figures of close to 14% for the next few months. However, our base scenario assumes that the adjustment in activity, falling raw material prices worldwide and a partial reversal of exchange rate depreciation as we go into 2023 will reanchor medium-term inflation expectations closer to 3%. For this scenario to play out, the price component of both tradeable and non-tradeable goods must slow, hand in hand with lower imported inflation, narrowing output gaps and lower wage pressure.

Thus, in economic policy we expect the real annual budgeted contraction in public spending of around 24% to come to fruition and the monetary policy rate to peak at 10.25% at the next meeting in September. It should then begin to fall from the first quarter of 2023, once inflation starts to converge towards levels that are more consistent with the Chilean Central Bank's medium-term target of 3%.

Now, Banco Security CEO Eduardo Olivares will comment on the Bank's results for the period.

Eduardo Olivares (CEO Banco Security)

Banco Security, Consolidated (Slide 5)

- Banco Security consolidated profit: MCH$67,843 for 6M22, +121.0% YoY, with an improved net interest margin in the commercial areas and strong results from the Treasury Division due to rate hikes and higher inflation (UF variation of 6.8% for 6M22 vs 2.2% for 6M21)
- In addition, the asset management subsidiaries reported profit of MCH$9,761, or 148.6% greater than 2021, mainly attributable to strong returns from the proprietary trading portfolio.

ROAE (Annualized profit / average equity)

  - Banco Security: 19.0%
  - Peer banks: 20.6%
  - Industry: 29.4%

Total loans: BCH$7,078 as of June 2022 (+13.1% YoY) (+13.9% YoY for industry excluding foreign subsidiaries)

Commercial loans: BCH$5,731 (+12.8% YoY) (industry +15.3%, +11.9% excluding foreign subsidiaries)

Retail loans: BCH$1,347 (+14.4% YoY) (industry +16.7%, +15.5% excluding foreign subsidiaries)

- Consumer loans: +4.0% YoY (industry +18.2%, +18.0% excluding foreign subsidiaries)
- Mortgage loans: +20.2% YoY (industry +16.2%, +14.6% excluding foreign subsidiaries)

Ratio of net interest margin to loans grew 151 points YoY, or 4.5% of loans, driven by high interest rates and inflation.

Banco Security reported an efficiency ratio of 43.2% for 6M22, versus 48.0% for 6M21.

- Peers: 41.2% (6M22)
- Industry: 38.6% (6M22)

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 39.1% for 6M22, below last year's 45.7%.

Banco Security – Results by Business Area (Slide 6)

Commercial Banking: profit of MCH$33,494 for 6M22, MCH$22,816 greater than 2021, explained mainly by the improved net interest margin and lower risk expenses.

- Net interest margin: MCH$75,207 (+54.0% YoY) due to a rise in income from liabilities because of interest rate hikes (average MPR of 6.5% for 6M22 vs 0.5% for 6M21) and a larger volume of current account and other demand deposits.
- Net fees and commissions: MCH$11,481 (+8.8% YoY) due to a larger volume of performance and bid bonds.

- Support expenses: MCH$25,042 (+31.0% YoY) due to commercial bonuses and higher corporate rates, mostly in the Digital Area.

Retail Banking: Profit of MCH$3,761 for 6M22 (versus a loss of -MCH$2,641 for 6M21). As we have mentioned before, these results reflect the transformation efforts over the last two years, which adjusted customer service models to improve the customer experience and boost business.

- Net interest margin: MCH$33,659 (+36.5% YoY) due to growth in income from liabilities mainly because of interest rate hikes (average MPR of 6.52% for 6M22 vs 0.5% for 6M21) and a larger volume of time deposits.
- Net fees and commissions: MCH$7,022 (+18.9% YoY) due to increased activity in credit and debit cards and commissions from supplementary loan insurance products.
- Risk expenses: MCH$8,606 (+10.5% YoY) with a low basis of comparison in 2021 due to decreased business and improved delinquency because of more liquidity in the system than last year.
- Support expenses: MCH$28,748 (+10.2% YoY) related to commercial bonuses, increased business and higher corporate rates, mainly in the Digital Area.

Treasury: For 6M22 the Treasury Division reported profit of MCH$29,413, representing a rise of 23.7% YoY. This effect is explained by greater operating revenue because of higher interest rates and inflation.

- Net interest margin: MCH$47,747 (+89.5% YoY)
    - Higher inflation (UF variation of 6.8% for 6M22 vs 2.2% for 6M21)
    - Increased mismatch since late 2021
    - Low interest rate risk due to bond placements over the past five years
- Financial operating income, net FX transactions and other income: Loss of -MCH$4,981 vs MCH$8,778 for 6M21
    - Weaker returns on fixed-income instruments and a high basis of comparison due to large volume of transactions in 6M21.
    - The lower figure for this line item is partly offset by greater interest income from reinvesting with a better spread
- Support expenses: -MCH$8,217 (+24.0% YoY)
    - Bonus payments for 2021 employee performance
    - Rise in corporate rates, mostly by Digital Area.

Now Alberto Oviedo, Credit Risk Division Manager for Banco Security, will give us more details on credit risk during the period.

Alberto Oviedo (Risk Division Manager Banco Security)

Banco Security – Risk (Slide 7)

Provisions for credit losses for 6M22 were MCH$33,463, equivalent to 0.95% of total loans, and reflecting a 18.0% decrease over June 2021 due to lower risk expenses in the commercial portfolio of MCH$23,881 (-34.8% YoY). This can be explained by a high basis of comparison because of impairment of one particular corporate segment customer in 2021 and increased recovery on loans.

This effect was partly offset by increased loan loss provision expenses for 6M22 of MCH$6,323 and MCH$1,364 for the consumer and mortgage portfolios, respectively, thus doubling last year's expenses. This result considers a low basis of comparison because of decreased business and reduced delinquency in 2021 due to greater liquidity.

The Bank recorded additional voluntary provisions during the first six months of 2022 of MCH$3,500: MCH$1,500 for the commercial portfolio, MCH$1,500 for the consumer portfolio and MCH$500 for the mortgage portfolio. Overall, additional provisions totaled MCH$12,000 for 6M22.

The NPL portfolio reached MCH$133,698 as of June 2022, which represents 1.89% of loans and is below both the June 2021 figure of 1.91% and the target range of 2%. With this, the NPL coverage ratio is 1.23 (1.32 including additional provisions). I would like to particularly highlight the quarterly 6.6% decrease in the NPL portfolio, explained by collections management with several large customers during the period.

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$4,090, 1.2% less than June 2021. This is explained by a drop in mutual funds, mainly domestic fixed income funds and balanced funds, partially offset by increased AUM in domestic and international custody.

The area reported profit of MCH$9,761 for 6M22, more than double the first half of last year, mainly due to greater non-operating income of MCH$6,870, explained by better returns on the proprietary trading portfolio mostly due to higher inflation during the period.

Operating revenue amounted to MCH$18,962, stable year over year, with increased fund revenue due to greater ROA, which more than offset the drop in volumes managed. These effects were offset by reduced transactional income, in particular from stocks and local fixed-income instruments. Meanwhile, total expenses reached MCH$16,958, practically stable year over year.

Factoring Security (Slide 9)

Profit totaled MCH$7,204, up 50.6% from 6M21. Net operating income increased 38.1%, due to a 20.7% rise in the volume of factored receivables, an improved spread and greater indexation income. This effect was partially offset by greater banking expenses related to higher interest rates.

Support expenses climbed to MCH$6,392, an increase of 22.3% over the same period last year, mainly due to higher payroll expenses because of cost-of-living adjustments over the past twelve months, bonus payments and structural adjustments. Meanwhile, risk expenses reached 15.9% with respect to 6M21 due to a larger volume of factored receivables.

The subsidiary had an efficiency ratio of 37.2% as of June 2022, 480 basis points less than last year. Meanwhile, the risk index, calculated as provisions over total factored receivables, was 1.53% versus 2.03% as of June 2021.

Now Juan Pablo Cofré, Investment Manager at Vida Security, will comment on the insurance company's results.

Juan Pablo Cofré (Investment Manager, Vida Security)

Vida Security (Slide 10)

Despite inflation levels and high market volatility, Vida Security reported profit of MCH$24,420. The company had premiums of MCH$239,619 as of June 2022, 57.9% greater than June 2021, with market share of 7.5% in total premiums written and 8.9% 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 period annuity sales rates averaged 3.61%, while the programmed withdrawal rate was 4.62%. Overall, as of June 2022, the industry had annuity premiums of MUF30.7, doubling the level as of June 2021, but still below prior years.

In this context, Vida Security reported MCH$102,017 in gross written premiums, more than twice the figure from last year.

The variation in technical reserves was a positive MCH$11,552 (-MCH$22,121 for 6M21) explained by negative investment results from the CUI and APV portfolios, which involved releasing technical reserves.

Claims and pensions paid totaled MCH$230,198, 54.5% greater than June 2021, because of increased sales, mainly annuities, and an increase in surrenders and transfers in CUI and APV policies.

This explains the contribution margin of MCH$9,351 for 6M22, compared to -MCH$28,605 for 6M21.

Vida Security - Investment Income (Slide 11)

Investment income was MCH$37,041, 49.4% less than 6M21 due to weaker returns from the CUI and APV portfolio, offset by strong returns on the proprietary trading portfolio.

The proprietary trading portfolio was up 14.8% year over year to MCH$65,519 for 6M22, representing an ROI of 5.5%. During the period, it had greater returns from local fixed-income assets, real estate funds and gains from exchange differences, offset by lower returns from alternative assets.

The CUI and APV portfolio reported a loss of -MCH$28,478 (+MCH$16,094 for 6M21) due to weaker returns from equities and indexes. This result does not include the positive effect of exchange differences, which are presented under ‘exchange differences’ in the income statement. In addition, negative returns from the CUI and APV portfolio are counterbalanced by releases of technical reserves.

Marcela Villafaña (Investor Relations and Strategic Development Manager)

Protecta Security (Slide 12)

In the international business area, Protecta Security had profit of MS./10.1 for 6M22, up 6.4% from 6M21. This improved result is explained by a 52.8% rise in investment income, partially offset by an increase in claims paid, related to a larger stock of pensions payable and indexation of pensions because of high inflation in Peru.

As of June, it had total premiums of MS./307, stable YoY. Annuities performed exceptionally well with growth of 17.8% with respect to the prior year and market share of 21.5%. This growth was offset by a 32.5% decrease in private annuity premiums explained by market contraction and heightened competition for this product.

Bear in mind that converting results in soles to IFRS used in Chile and adjusting for the varied accounting criteria used in each country results in a different book-basis profit.

Other Services Area (Slide 13)

As planned, Travel Security reversed the loss of -MCH$278 from June 2021 for a positive bottom line of MCH$1,661 (consolidated with its subsidiary in Peru), thanks to a gradual recovery in sales that nearly reached pre-pandemic levels in the second quarter.

The real estate subsidiary reported profit of MCH$169, down 92.7% from June 2021, due to ownership transferred on a smaller number of units during the period, reaching 29 units during the year, or 47% fewer YoY. This result is in line with the company’s current investment cycle.

Real estate assets under management totaled MCH$84,999, up 3.0% with respect to June 2021, explained by existing projects under development, offset by ownership transfers during the period.

Fernando Salinas (CEO Grupo Security)

Closing Slide (Slide 14)

Overall, Grupo Security reported profit of MCH$66,948, an increase of 65.1% over 6M21. Meanwhile, LTM profit was MCH$115,008, an all-time high for the Group.

However, based on its August 18th price, our stock had a market-to-book ratio of 0.61, a dividend yield of 10.4% and a price-to-earnings ratio of 4.7, below its historical averages.

Next, Francisco Letelier, Corporate Digital and Data Manager, will comment on Grupo Security's digital strategy, as well as our progress and expectations for the area.

Francisco Letelier (Corporate Digital and Data Manager)

Digital Strategy (Slide 15)

Our digital strategy aims to develop a common digital vision aligned with the Group's expected evolution. It consists of three pillars:

1. Accelerating current business catch-up: we aim to improve the experience of our customers, driving use of digital channels and harnessing efficiencies.
2. Promoting a data-driven organization: to generate value by strengthening decision making through use of and access to data.
3. Creating new sources of value: through partnerships with fintechs, and by incorporating new technologies.

Four-year plan (Slide 16)

- This plan applies to all Grupo Security companies but focuses on the four main businesses, which represent 97% of profit this year: Banco, Inversiones, Factoring and Vida.
- We have worked with each business unit to define the following strategic priorities:
  - In the Commercial Banking Division we aim to improve our customers' experience with key products and services, and to strengthen transactional products.
  - In the Retail Banking Division and asset management area (Inversiones) we will use digital tools to integrate our value proposition and streamline customer growth.
  - At the life insurance subsidiary (Vida), we will optimize the digital offering of individual and group policies and broaden distribution through alliances.
  - Lastly, at Factoring we will enhance the existing digital offering by prioritizing self-service.
- With this plan we aspire to obtain additional revenue of US$ 20 to 30 million per year, with an investment of around US$ 50 million over four years.
- This investment is not a fixed amount that will be paid in one lump sum, but rather will be spent gradually as each initiative passes internal approval processes and generates expected outcomes, as defined in the governance model.

Governance (Slide 17)

- Each planned initiative must undergo a rigorous approval process and meet internal validations. Depending on the amount involved, they could even be reviewed by the companies' boards.
- The defined governance model safeguards important dimensions and involves different areas from each business and the Group. These areas participate in the design, implementation and monitoring of each initiative, concerned with aspects like strategic alignment, financial impact, non-financial impact, data policies, productivity, quality and cybersecurity.

Implementation Roadmap (Slide 18)

- The proposed implementation process is broken down into different initiatives, which are detailed with implementation deadlines, investments and expected returns. Each initiative will be implemented gradually and go through the robust approval process mentioned previously. This plan could undergo modifications based on new needs identified by the agile implementation methodology we are using.
- In addition, we are working in parallel on building enablers for these initiatives so that they are implemented correctly and on time and have the expected impact.

Progress (Slide 19)

We have already made some important progress on our Digital Transformation process in 2022, as outlined in our ambitious, forward-looking, four-year plan:

- In partnership with the fintech ecosystem, we have created new partnerships: Our relationships with fintechs have already generated over M$530 in net revenue thus far this year.

- At Factoring Security, 60% of new customers enter through our self-service platform 'Autofactoring,' which we are continuing to improve as defined in the strategy.
- In the Commercial Banking Division, in May we implemented a new functionality on the private site that enables our customers to make inquiries and download documents that previously had to be requested from their account executive. To date, more than 15 thousand inquiries have already been made and the site is being periodically used by 30% of customers.
- At the Bank we implemented SecurityPass, a unique cloud-based Softoken for the Commercial and Retail Banking divisions and the asset management area. From February until now it has been used to authorize over 260 thousand transactions.
- In the Retail Banking Division, we continue to improve our digital sales KPIs. Today around 80% of consumer loans are completed through our digital channels.
- As for data and analytics, we have finalized implementation of the corporate data lake and are now beginning to operate it. In addition, our advanced analytics factory already has 10 models with concrete impacts in the various business units. For example, we have increased our conversion rate for consumer loans and have improved proactive customer retention.

Q&A Section

Question 1: What are your expectations for delinquency? Is there going to be an important increase in light of the economic deceleration we're seeing and what segment do you think will be most affected by it?

Alberto Oviedo

The truth is that we do not expect our NPL indicator to surpass 2%, which is our goal as mentioned in the presentation. There are sectors that everyone knows are having a harder time, such as real estate and some insurance companies in the health sector, especially those on the front line. We do not expect an important impact. We might see some decreases but they should not be greater than 20 to 22 billion pesos and that should not take us above 2%.

On the other hand, the retail portfolio and losses in the consumer and mortgage portfolios, which were abnormally low last period, should normalize. This trend is already quite evident in the financial system. Our portfolio has a somewhat different profile and characteristics. It recently began to normalize. In the fourth quarter we anticipate reaching loss levels of 3.5%, more consistent with historical losses, instead of the 1.2% or 1.3% we saw last year.

With that said, I do not envisage any growth over the next six months that threatens our goal of keeping the ratio of NPL portfolio to loans below 2%. We also expect to stay over the goal of 100% in NPL coverage.

Question 2: What exposure do you have to the health sector, specifically ISAPRES and private hospitals, and how much of that is performance and bid bonds?

Alberto Oviedo

As of June, 0.5% of total loans are related to ISAPRES. Almost all are performance and bid bonds but a small fraction is overdraft lines. That has been reduced a bit between June and now. This is public knowledge because of some news stories that have appeared in the press. As for private hospitals and health services, they make up around 1.5% of loans. In aggregate, these sectors represent 2% of total loans.

Question 3: Has the company's stock buyback process ended? Given your earnings, is there any possibility of an additional dividend?

Marcela Villafaña

Regarding the buyback process, regulations allow you to buy back up to 1% of issued shares over a period of 12 months. We reached that 1% mark in February of this year, so we stopped purchasing. That year ends now at the end of August and in September we have to decide if we are going to start the buyback process again for another 1%. That is already authorized by the shareholders and we are going to analyze it based on market conditions.

Fernando Salinas

As for the dividend policy, historically we have distributed between 50% and 60% of earnings. We have not contemplated an additional dividend in excess of historical figures or corporate policy.

Question 4: Have you changed your guidance for ROAE for the year, considering the strong results you've had to date?

Fernando Salinas

No, we have not changed the guidance, although we are in the upper part of the projection, supported by non-operating income.

Marcela Villafaña

In the case of the Bank, its financial results are effectively more important this year in particular.

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