Marcela Villafaña (IR and Strategic Development Manager)

Introduction (Slide 1)

Good morning and thank you for joining us for Grupo Security's earnings presentation for the nine months ended September 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.

We are joined by Fernando Salinas, CEO of Grupo Security and Eduardo Olivares, CEO of Banco Security, together with Alberto Oviedo from the Risk Division and Manuel Widow from Planning and Management.

From Vida Security we are joined by CEO Alejandro Alzérreca, along with CFO Rodrigo Guzman and Investment Manager Juan Pablo Cofré.

Now, Grupo Security's Chief Economist Felipe Jaque will give us a brief summary of the economic environment during the period

Felipe Jaque (Chief Economist, Grupo Security)

Macroeconomic Recap 2022 (Slide 2)

At the close of the third quarter, economic activity was clearly in a deceleration phase, with GDP falling -1.2% with respect to the immediately preceding quarter in seasonally adjusted terms. Private consumption, previously favored by stimulus, was mainly responsible for the fall.

The reasons behind the loss of dynamism include lower external momentum, as reflected in the deteriorating financial conditions facing Chile, the drop in terms of trade and lower global growth, all in a context of waning monetary and fiscal stimulus. In fact, as of September, fiscal spending had contracted 21% in real terms, while the Chilean Central Bank continued to raise the MPR, reaching a ceiling for the current cycle of 11.25% in October, making financial conditions very restrictive. In this context, banking system loans have lost dynamism, showing year-on-year variations of close to zero in real terms as of September. Meanwhile, in the labor market, job creation is practically stagnant.

Early indications for the last quarter of the year anticipate a prolonging and worsening of the decline in domestic spending, driven by trade, construction and manufacturing, although GDP is expected to close the year with growth of around 2%, above the 1.5% previously estimated. However, the outlook for 2023 is less favorable, given the continuation of negative factors (lower external momentum, stimulus withdrawal and high local uncertainty), which would lead to a -1% drop in GDP for the year as a whole.

As for inflation, which remains high in the main countries, expectations in the US point to a moderation sooner rather than later, and the market expects the federal funds rate to reach 5% at most. This would also put a ceiling on the appreciation of the dollar worldwide.

At the local level, we continue to forecast a moderation of the CPI due to lower external inflation, some appreciation of the exchange rate and the fall in spending, which would bring the year-on-year variation to 3% by December 2023, above the 4%-4.5% implied by the market. It is worth noting that market expectations have shown a downward trend, albeit with high volatility, especially after the CPI report for October, which was surprisingly low, although there is still room to reach levels more consistent with the 3% target. Nevertheless, inflationary uncertainty remains high, partly due to the scenarios that are opening up regarding the prices of regulated services.

Against this backdrop of lower inflation and expectations that are beginning to straighten out, we expect the Chilean Central Bank to start a process of monetary normalization by the end of the first quarter of 2023, taking the MPR to 6% in December 2023 and to 3.5%—a level we deem neutral—by mid-2024.

Fernando Salinas (CEO of Grupo Security)

Grupo Security Sept 2022 (Slide 3)

For 9M22, Grupo Security reported profit of MCH$100,132, up 48% from September 2021, with profit of MCH$154,227 from its business areas.

These results were led by the lending area, with profit of MCH$107,697, which consists of Banco Security and Factoring Security excluding the asset management subsidiaries AGF and Valores.

The main contribution to the Bank's results was from the Commercial Banking Division, with MCH$57,330. This performance can be explained by growth in the net interest margin because of high inflation, a 9.7% increase in commercial loans and a 14% reduction in risk expenses.

Meanwhile, the Treasury Division reported profit of MCH$47,310 for 9M2022, due to a larger net interest margin because of interest rate hikes and higher inflation during the period.

The Retail Banking Division had profit of MCH$6,071, 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$10,076 with stable levels of factored receivables, a wider spread and greater indexation income.

Inversiones Security enjoyed profit of MCH$13,956 with a total of BCH$4,071 in assets under management. These improved results for the period are explained by a stronger performance from the proprietary trading portfolio and greater operating revenue, mostly from mutual funds.

Vida Security reported profit of MCH$32,991, down 13.5% due to higher inflation. This affects the company's technical reserves, given the mismatch in the proprietary trading portfolio due to investment decisions.

In the other services area, Travel Security achieved profit of MCH$2,813, recovering pre-pandemic sales levels as of the second quarter of 2022. Inmobiliaria Security reported profit of MCH$663, 71% less due to legal title transferred on fewer units, in line with the current investment cycle.

Lastly, Protecta Security obtained profit of MS./11.3 in Peru, down 3.2% from 2021, despite a 35.8% 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, Banco Security CEO Eduardo Olivares will comment on the Bank's results for the period.

Eduardo Olivares (CEO, Banco Security)

Banco Security, Consolidated (Slide 4)

- Banco Security consolidated profit: MCH$110,200 for 9M22, +114.8% 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.
- In addition, AGF and Valores reported profit of MCH$12,585, or 128.1% greater than 2021, mainly attributable to strong returns from the proprietary trading portfolio and increased operating income.
- Total loans: BCH$7,247 as of September 2022 (+10.8% YoY), obtaining 3.29% market share, with NIM driven by rising interest rates and higher inflation.
- Commercial Banking Market Share: 5.9%, Retail Banking Market Share: 5.1%
- ROAE of 20.2%, versus 10.2% as of September 2021.
- Efficiency of 41.7% as of September 2022, versus 46.4% as of September 2021.
- Progress on the Digital Front
    - 2021-2022 has strengthened its relationship with the Fintech ecosystem, creating three new alliances and generating revenues of MCH$866 so far this year.
    - This year we also implemented SecurityPass, a unique softoken for Commercial Banking, Retail Banking and Asset Management customers.
    - Implementation of the corporate Data Lake during 2022, where effects have already been observed at Banco Security such as a higher conversion rate for consumer loans and improved proactive customer retention.

Banco Security – Results by Business Area (Slide 5)

Commercial Banking:

Target segment: companies with annual sales above MUS$ 1.2. In recent years, the Bank has worked to strengthen the medium-sized companies segment in order to diversify its customer base and improve returns in each segment.

Profit of MCH$57,330 for 9M22, MCH$37,214 greater than 2021, explained mainly by the net interest margin growth and lower risk expenses.

- Net interest margin: MCH$118,223 (+59.6% YoY) due to increased income from liabilities as a result of higher interest rates.

On the digital front, during the year, functionalities were developed on the Commercial Banking website to facilitate self-service with several documents such as certificates, invoices and settlements now available online.

Retail Banking:

Profit of MCH$6,071 for 9M22 (versus a loss of -MCH$2,727 for 9M21).

- Net interest margin: MCH$53,748 (+46.8% YoY) due to growth in income from liabilities because of interest rate hikes and a larger volume of time deposits.

This year we also strengthened our digital channels, which now account for 80% of consumer loan sales.

Treasury:

The Treasury Division consists of trading, investment, distribution and asset and liability management (ALM) transactions.

For 9M22 the Treasury Division reported profit of MCH$47,310, representing a rise of 39.6% YoY. This effect is explained by greater operating revenue because of higher interest rates and inflation.

- Net interest margin: MCH$72,967 (+90.8% YoY)
    - Higher inflation and rate hikes during the period, coupled with a larger mismatch since the end of 2021.

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 6)

Provisions for credit losses for 9M22 were MCH$53,038, equivalent to 0.98% of total loans, and reflecting a 9.7% decrease over the prior year due to a 29% drop in provisions for the commercial portfolio to MCH$36,639. 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 in 2022.

This effect was partly offset by increased allowances for loan losses in 9M22 of MCH$12,535 and MCH$1,467 for the consumer and mortgage portfolios, respectively, thus more than doubling last year's allowances. 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 nine months of 2022 of MCH$6,000: MCH$2,500 for the commercial portfolio, MCH$3,000 for the consumer portfolio and MCH$500 for the mortgage portfolio. Overall, additional provisions totaled MCH$14,500 for 9M22.

The NPL portfolio totaled MCH$143,698 as of September 2022, which represents 1.98% of loans, below the target range of 2%. With this, the NPL coverage ratio is 1.15 (1.25 including additional provisions).

Marcela Villafaña (Investor Relations and Strategic Development Manager)

Asset Management (Slide 7)

The asset management area—comprised of the mutual fund subsidiary (AGF), the brokerage subsidiary (Valores) and Securitizadora Security—had assets under management of BCH$4,071, 3.4% less than September 2021. This is explained by a drop in mutual funds, mainly domestic short-term debt funds and balanced funds, partially offset by increased AUM in domestic custody and investment funds.

The area recorded profit of MCH$13,956 for 9M22, more than doubling the 9M21 result. The increase is mainly explained by higher non-operating income of MCH$8,352, due to a better result in the Company's proprietary trading portfolio, mainly because of inflation during the period.

Operating revenue amounted to MCH$29,853, up 9% from the prior year, with increased fund revenue due to greater ROA because of higher rates, which more than offset the drop in volumes managed. Meanwhile, transactional income reached MCH$10,036, stable year on year, while total expenses fell.

Factoring Security (Slide 8)

The AutoFactoring self-service platform was created in 2020 and has shown strong growth since then. In 2022, it accounts for 87% of the company's new business, in line with efforts to boost the digital offering at Factoring Security.

Profit totaled MCH$10,076, up 40.2% from 9M21. Net operating income increased 36.8%, as a result of a larger portfolio spread and higher net indexation income during the period.

Support expenses climbed to MCH$10,165, an increase of 29.9% over the same period last year, mainly due to cost-of-living adjustments, bonus payments and structural adjustments. Meanwhile, provisions for credit losses totaled MCH$3,259 (up 70.3% from 9M21) mostly because of increased delinquency in certain sectors.

The subsidiary had an efficiency ratio of 39.7% as of September 2022, 211 basis points less than last year. Meanwhile, the risk index, calculated as provisions over total factored receivables, was 2.06% versus 1.98% as of September 2021.

I will now leave you with Rodrigo Guzmán, who will present the insurance companies' results.

Rodrigo Guzmán (CFO - Vida Security)

Vida Security (Slide 9)

Vida Security reported profit of MCH$32,991, down 13.5% from 2021 due to higher inflation. Although there is indexation in the company's assets and liabilities, inflation affects the technical reserves to a greater extent, given the mismatch of the company's proprietary trading portfolio due to investment decisions. This effect is offset by the portfolio's improved investment income.

The company had premiums of MCH$338,691 as of September 2022, 43.8% over September 2021, above the industry's 36.2% growth. This increased its market share from 6.4% as of September 2021 to 6.7%, largely due to growth in individual policies.

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, so far this year the annuity sales rates has averaged 3.56%, while the programmed withdrawal rate is 4.64%. Overall, as of September 2022, the industry had annuity premiums of MUF54.7, +88.8% over September 2021, but still below prior years.

In this context, Vida Security achieved MCH$129,935 in gross written annuity premiums, up 79% from 2021. In addition, gross written individual insurance premiums amounted to MCH$152,797, 38.6% above the previous year, giving the company second place market share of 15.5%, mainly due to CUI insurance.

The variation in technical reserves was a positive MCH$2,245 (-MCH$39,629 for 9M21) explained by negative investment results from the CUI and APV portfolios, which involved releasing technical reserves.

Claims and pensions paid totaled MCH$331,110, 44.7% greater than September 2021, because of higher annuity sales and an increase in surrenders and transfers in CUI and APV policies.

This explains the contribution margin of -MCH$8,060 for 9M22, compared to -MCH$47,164 for 9M21.

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

Juan Pablo Cofré (Investment Manager, Vida Security)

Vida Security - Investment Income (Slide 10)

Investment income was MCH$76,312, 34.1% less than 9M21 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 4.3% year over year to MCH$98,991 for 9M22, representing an ROI of 5.4%. 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$22,679 (+MCH$20,837 for 9M21) due to weaker returns from equities and indexes, partly offset by improved returns from fixed-income instruments. 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 11)

In the international business area, Protecta Security had profit of MS./11.3 for 9M22, up 3.2% from 9M21. This improved result is explained by a 35.8% 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 September, it had total premiums of MS./463.5 (-6.7% YoY). It reported annuity sales of MS./265.5, stable year-on-year, with market share of 21.1%. In addition, it had private annuity sales of MS./107.1 (-36.3% YoY) explained by a market contraction and heightened competition in this product line.

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 12)

As planned, Travel Security achieved profit of MCH$2,813 (consolidated with its subsidiary in Peru), versus MCH$39 for 9M21, thanks to a gradual recovery in sales that reached pre-pandemic levels in the second quarter 2022.

The real estate subsidiary reported profit of MCH$663, down 70.9% from September 2021, due to ownership transferred on a smaller number of units during the period, reaching 43 units during the year, or 33.8% fewer YoY. This result is in line with the company's current investment cycle.

Real estate assets under management totaled MCH$88,200, up 8.2% with respect to September 2021, explained by existing projects under development, offset by ownership transfers during the period.

Fernando Salinas (CEO Grupo Security)

Closing Slide (Slide 13)

Overall, Grupo Security reported profit of MCH$100,132, an increase of 48.3% over 9M21. Meanwhile, LTM profit was MCH$121,234, an all-time high for the Group.

Since the end of 2019, the Group's stock has been undervalued, trading below its book value at a price-to-earnings ratio of 5.4 to date. However, during 2022 the stock has managed to recover in part, reaching a price of CH$163.3 per share as of close yesterday, which represents a total return of 53.2% for the stock, above the IPSA's 22.8%. The businesses' strong performance has allowed us to distribute dividends of 15 pesos per share over the last 12 months, which represents a dividend yield of 9.2%.

Finally, in November MSCI announced that Grupo Security's stock will be included in the MSCI Chile Small Cap Index as of November 30th. Being included in this index lends greater visibility to its stock both domestically and abroad, contributing to liquidity and helping attract new shareholders.

Marcela Villafaña

Thank you for the presentation and thanks to everyone for logging on. Now we are available to answer your questions. You can raise your hand on the platform or submit them in the Q&A section.

What are you seeing for next year in terms of loan growth and risk levels?

Eduardo Olivares

What we are seeing for the industry is nominal loan growth of around 3.3%, slightly above projected inflation. In the Bank's case, we expect it to be slightly above that level. This growth considers efforts to diversify our portfolio and moderate growth in terms of risk.

Alberto Oviedo

There is some consensus among industries that are bearing the brunt of the stress: real estate and construction, some trade sectors and probably financial services, as rates move very quickly. These are the sectors we look at most closely.

Our strategy for several years has been to further diversify our portfolio, as the best way to deal with economic cycles. In the retail portfolio, due to the nature of the Bank's portfolio, our delinquency levels tend to increase later than the system and, therefore, decrease later than the system. Compared to what has happened in the industry, we do not see signs of significant deterioration, but we have seen a marginal increase in delinquency in recent months, albeit well below what the financial system as a whole is experiencing.

In the coming quarters do you expect to continue to book additional provisions, looking to increase your coverage ratio in light of this rise in NPLs? Can you provide profitability guidance for 2023?

Eduardo Olivares

In terms of additional provisions, the Bank recorded an additional provision two and a half years ago. We will continue to strengthen the Bank's provision base in order to be well protected against possible downturns in the economic cycle.

In terms of guidance, we do not have the figures ready as the budgeting process is still underway, but it should be a double-digit return.

Alberto Oviedo

It is important to remember that additional provisions are recorded for future cycles and are not related to the current quality of the portfolio. The Bank always maintains ordinary provisions with adequate coverage for the level of risk at any given time. Although we also look at coverage with additional provisions, coverage with ordinary provisions is always above 100%, except for specific situations in which they do not cover the level of risk at the time. Today's additional provisions do not reflect portfolio deterioration but rather steps to prepare the bank's books for the next cycle.

What will be the impact on the share price of being added to the index?

The index listing was announced on November 13th and will be official as of November 30th. We cannot estimate the impact on results, but we know that it will probably lead to additional purchases.

It is not easy to make a projection regarding the share price, although as we have mentioned, our stock is trading below its book value and with historically low price-to-earnings ratios. This is anchored to the effects on the capital market of the domestic economic and political context, so it would be logical to expect a recovery as uncertainty continues to clear.

How could the pension reform impact the annuity market?

The pension reform has positive conceptual aspects, such as reinforcing the solidarity pillar and increasing the percent paid in, regardless of whether this goes to individual accounts or national accounts. Other positive elements are the issues of gender equity for the purposes of calculating pensions or the subsidy for years paid in.

As for annuities, it is positive that this product is becoming the only option for retirement. This includes its three forms: simple, guaranteed and with an inheritance option. This is also consistent with a social security system where the state transfers longevity, financial and inflation risks to the life insurance company.

To give an idea of magnitude, between 2012 and 2017 about 70% of pension requests were handled by the insurance industry. As of 2018, this dropped significantly and today we find ourselves with annuities account for around 40%. This 30%-60% of pensions that today choose scheduled withdrawals are the growth potential in this market.

Some administrative issues still require clarity, such as the issue of bidding and awarding by groups of retirees. However, currently almost 90% of people retire with one of the five largest companies, so as long as implementation is adequate, there should be no major problems.

The lack of clarity in some matters, such as how these new public agencies—APA and IPP—will operate, is a matter of concern. I believe that the issue of notional accounts, along with the portfolio reallocations necessary for the creation of generational funds, may have a negative impact on the depth of the capital market and its benefits for the country’s growth and development.

There is also concern about the impact on the labor market, since the additional contributions, especially when they do not go to an individual account, can be interpreted as a tax, increasing informality and generating larger contribution gaps, one of the current system's major problems. This is because lowering contribution density implies a substantial drop in the replacement rate at retirement.

What is your estimate of the impact of the first option of the standardized provisioning model on the Bank's consumer portfolios?

Today we have close to CH$22 billion in provisions and the impact could be between CH$8 and CH$11 billion, depending on the CMF's definitions, which are still pending. To date there is a new consultation period, so implementation of the new methodology is still not 100% clear, or whether it will be accounted for against equity or against results. The use of additional consumer provisions, if any, is also pending.

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